CANADA

REPORT OF THE AUDITOR GENERAL

TO THE HOUSE OF COMMONS

for the

FISCAL YEAR ENDED MARCH 31

1970

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(as published in the Public Accounts)

THE functions and responsibilities of the Auditor General of Canada are outlined in Part VII of the Financial Administration Act, *R.S., c.116.*

2. Subsection (2) of section 70 of the Act states that the Report of the Auditor General shall be laid before the House of Commons by the Minister of Finance on or before December 31 or, if Parliament is then not in session, within 15 days after the commencement of the next ensuing session.

I have been unable to complete my Report on the results of my examinations for the year ended March 31, 1970 within this timetable due to the circumstances outlined in paragraph 8, Scope of Audit, and paragraph 11, Office of the Auditor General.

3. In accordance with the requirement of subsection (1) of section 70 of the Act, I now report to the House of Commons on the results of my examinations of the expenditure and revenue transactions in the year ended March 31, 1970. This subsection reads:

> The Auditor General shall report annually to the House of Commons the results of his examinations and shall call attention to every case in which he has observed that
>
> (a) any officer or employee has wilfully or negligently omitted to collect or receive any money belonging to Canada,
>
> (b) any public money was not duly accounted for and paid into the Consolidated Revenue Fund,
>
> (c) any appropriation was exceeded or was applied to a purpose or in a manner not authorized by Parliament,
>
> (d) an expenditure was not authorized or was not properly vouched or certified,
>
> (e) there has been a deficiency or loss through the fraud, default or mistake of any person, or
>
> (f) a special warrant authorized the payment of any money,
>
> and to any other case that the Auditor General considers should be brought to the notice of the House of Commons.

4. The Statement of Expenditure and Revenue for the fiscal year ended March 31, 1970 and the Statement of Assets and Liabilities as at that date, prepared by the Receiver General for inclusion in the Public Accounts, have been examined and certified by me as required by section 69 of the Financial Administration Act, subject to my comments in this Report. Copies of these financial statements are appended as Exhibits 1 and 2. The

Summary of Appropriations, Expenditures and Unexpended Balances by Departments and the Summary of Revenue by Main Classifications and Departments, both as included in the 1970 Public Accounts, have also been examined and certified and copies are appended as Exhibits 3 and 4.

Standing Committee on Public Accounts

5. The Public Accounts Committee was unable to consider my 1968 Report before the House terminated the First Session of the Twenty-Eighth Parliament on October 22, 1969 with the exception of paragraph 148—Concessions made to motor vehicle manufacturers—which was the subject of meetings on June 10, 12 and 17, 1969. The Committee has not yet made any report to the House on its examination of this subject.

The Committee resumed its examination of my 1968 Report during the Second Session which commenced on October 23, 1969. Its organization meeting was held on December 18, 1969 and during that Session it presented the following reports to the House:

First Report	February 12, 1970
Second Report	March 4, 1970
Third Report	May 13, 1970
Fourth Report	June 11, 1970
Fifth Report	June 26, 1970

During May and June 1970 the Committee held 15 meetings to consider the proposed Auditor General of Canada Act which had been drafted at the request of the Committee in 1966. This matter was the subject of its Fifth Report 1969-70.

The Committee's First Report 1970-71, presented to the House on November 26, 1970, was its final report on its review of my 1968 Report, and on December 1, 1970 it commenced its examination of my 1969 Report and is continuing its meetings thereon at the present time.

Recommendations and Observations by the Standing Committee on Public Accounts not yet implemented or dealt with

6. My Report to the House last year included a listing of 37 recommendations and observations by the Public Accounts Committee which were awaiting implementation by the Executive or further consideration by the Committee.

The Executive has implemented three of these recommendations:

Fourth Report 1964–65
The form and content of the Estimates

Sixth Report 1964–65
Pension awards effective at an early age

Eighth Report 1964–65
General election expenditure

Seven additional recommendations which are capable of specific implementation but which have not yet been implemented have been made by the Committee (see Appendix 1, items 35 to 41).

The 41 recommendations and observations which have not been implemented or otherwise dealt with are listed in Appendix 1 to this Report. These recommendations had their origins as follows:

Year	Number
1963	1
1964–65	14
1966–67	18
1968–69	1
1969–70	7
	41

At the request of the Committee, the following categorization of these outstanding recommendations has been made as of the date of this Report:

Category	Item in Appendix 1	Number
No action as yet	2, 5, 9, 17, 19, 20, 21, 28, 32, 34, 35, 38, 39, 40, 41	15
Conflicting recommendations since made by the Committee	4, 14, 16	3
Executive has indicated disagreement with recommendation—		
By letter to the Chairman of the Committee	8, 11, 15, 18, 24, 26, 29, 30, 31	9
In appearance before the Committee	22	1
Progress being made	1, 6, 7, 10, 23, 27, 36, 37	8
Partially implemented	12, 13, 33	3
Soon to be implemented	3, 25	2
		41

Two of the three unimplemented recommendations with respect to which there are now conflicting recommendations were first made to the House in 1964 and reiterated by the Committee to the House in 1966: (1) that the Auditor General have the right to

recruit the professional and senior staff he needs in the same independent manner as do other officers of Parliament, and (2) that it would be in the best interest of Parliament in its control of public funds were the Auditor General empowered to audit the accounts of all the Crown corporations, agencies and public instrumentalities owned or controlled by the Crown, wherever they may be, and to report thereon to the House. The third recommendation in this group—first made by the Committee to the House in 1966—was that the Financial Administration Act be amended to provide that the Auditor General shall out of the Consolidated Revenue Fund be paid a salary not less than the highest amount being paid to a senior deputy minister in the public service of Canada.

The conflicting recommendations appear in the Committee's Fifth Report 1969-70 where, in enumerating recommendations which should be considered when drafting a new Auditor General of Canada Act, the Committee stated:

1. That the staff of the Auditor General's Office remain under the Public Service Act with the Instrument of Delegation of Authority.
2. That there be no change in respect to the auditing of Crown corporations.
3. That the Government give consideration to the opportunity of making the salary of the Auditor General commensurate with the salary of a Federal Court Judge.

Speeding Up Production of the Public Accounts and the Report of the Auditor General

7. In my Report to the House last year (paragraph 199) I suggested that consideration be given to ways and means of speeding up not only the production of the Report of the Auditor General but also the Public Accounts of Canada and the examination of both by the Public Accounts Committee.

In my opinion, the interests of Parliament, the Government and the public would be better served if the various processes, commencing with the completion of the Public Accounts and the Report of the Auditor General, could be completed at an earlier date than has been the case in the past. If this could be achieved, I believe it would result in a better understanding of the Public Accounts and more meaningful consideration of the matters drawn to the attention of the House by the Auditor General. Parliamentary control of public expenditure would be enhanced if the Public Accounts Committee could deal with the Public Accounts and the Report of the Auditor General thereon before consideration had to be given to the Estimates for the next succeeding year. It would mean that those public servants whose administration must come under examination by the Committee could expect to be given an opportunity to present their views to the Committee at a much earlier date than is the case at present. It could also mean that the Public Accounts Committee should be able to examine and deal with the Report of the Auditor General and report upon it to the House before the Auditor General produces the succeeding year's Report.

I would again express the hope that members of the House will subscribe to the importance of a study being made of these procedures and that the Public Accounts Com-

mittee might perhaps direct that they be examined by the appropriate departmental officials and by me to determine the practicability and possibility of action along these lines.

Scope of Audit

8. Examinations of the departmental accounts for the year ended March 31, 1970 were made in conformity with section 67 of the Financial Administration Act which reads:

> The Auditor General shall examine in such manner as he may deem necessary the accounts relating to the Consolidated Revenue Fund and to public property and shall ascertain whether in his opinion
>
> (a) the accounts have been faithfully and properly kept,
>
> (b) all public money has been fully accounted for, and the rules and procedures applied are sufficient to secure an effective check on the assessment, collection and proper allocation of the revenue,
>
> (c) money has been expended for the purposes for which it was appropriated by Parliament, and the expenditures have been made as authorized, and
>
> (d) essential records are maintained and the rules and procedures applied are sufficient to safeguard and control public property.

The work of the Audit Office, covering both the audit for authority (legislative audit) and the financial audit, has continued along the usual lines during the past year. In accordance with generally accepted auditing standards, verification has been limited to such tests of the accounting records and other supporting evidence as were considered necessary in the circumstances.

In reporting on the scope of the audit last year, I mentioned certain factors which must be taken into account by the Auditor General in determining the extent of his work. I also described some of the difficulties faced by the Office in increasing and broadening the scope of the audit which was necessary because of the growth and increasing complexity of government operations. These difficulties were discussed by the Public Accounts Committee at its meetings in May and June 1970 but no satisfactory action was recommended and the difficulties remain. Although the Treasury Board has provided sufficient funds to employ the necessary staff with effect from April 1, 1971, the Office continues to be seriously handicapped by the action of the Treasury Board in maintaining its downgrading of all of the senior positions in the Office. Further particulars are given under "Office of the Auditor General" (paragraph 11).

Meanwhile examinations during the past year covered all departments, Crown corporations and other agencies of the Government of Canada except those corporations and other instrumentalities whose accounts are subject to examination by other auditors. Members of the staff of the Audit Office were given full access to all vouchers, records and files of the various departments, Crown corporations and other agencies. In addition,

they were readily provided with all supplementary information and explanations required. I should like to express my appreciation for the co-operation thus extended by departmental officers and by the administrative and accounting officers of Crown corporations and other agencies.

International Work

9. The Auditor General has served since 1956 as external auditor of the International Civil Aviation Organization, one of the specialized agencies of the United Nations. In this capacity he is a member of the United Nations Panel of External Auditors and has been its Chairman since October 1965.

On November 16, 1967 the General Assembly of the United Nations appointed the Auditor General of Canada a member of the United Nations Board of Auditors for a three-year term beginning July 1, 1968. During 1970 the Auditor General served as Chairman of the Board and on November 16, 1970 the General Assembly of the United Nations reappointed him as a member of the Board for a second three-year term beginning July 1, 1971.

On November 14, 1969 the Auditor General was invited to nominate a member of his staff to the Board of Auditors of the Organization for Economic Co-operation and Development. This assignment, which is being carried out by one of the Directors of the Office, is for a term of four years.

All of these assignments, which are undertaken at the request of the Government, provide valuable experience for the staff of the Audit Office. In most cases travelling expenses, salary costs and overhead are recovered from the client organizations.

International Organization of Supreme Audit Institutions

10. Canada will be host to the VIIth Congress of the International Organization of Supreme Audit Institutions (INTOSAI) being held from September 7 to 16, 1971. The headquarters for the Congress will be in the Queen Elizabeth Hotel in Montreal with the delegates visiting Ottawa and Quebec City during their stay in Canada.

INTOSAI is an international organization of the Auditors General and their counterparts in countries which are members of the United Nations. They have gathered together triennially over the past eighteen years to exchange views on technical matters and improve their knowledge of modern auditing techniques. At the VIth Congress held in Tokyo in 1968, which was attended by representatives from 70 countries, the Auditor General of Canada on behalf of the Government of Canada extended an invitation to the members to hold the VIIth Congress in Canada. This was accepted and since that time the Office has been busily engaged in making preparations and arrangements for this Congress. It is expected that between 80 and 90 countries will be represented by their

Auditors General at this Congress, most of whom have already submitted papers on the four major topics to be discussed:

I Audit staff personnel—its selection and training

II Electronic data processing and other technological aids

III Management or operational auditing—an extension of the scope of work of Supreme Audit Institutions

IV Implementation of recommendations made by a Supreme Audit Institution.

The members of the various delegations pay their own transportation to attend these Congresses, together with their living costs. The host country is, however, responsible for all of the direct costs of the Congress, including the cost of accommodation for meetings, translation and interpretation, hospitality, group travel within the country, etc. The cost of the VIIth Congress in Montreal has been estimated by the Audit Office at $208,000 of which $70,000 is for the estimated value of services being provided by other departments. The balance of $138,000 has been provided for in the Audit Office estimates to the extent of $25,000 by Finance Vote 15, 1970-71, and $113,000 by Finance Vote 20, 1971-72.

Office of the Auditor General

11. The actual staff strength of the Office a year ago was 233 out of an establishment of 250 for which Parliament had approved funds on June 27, 1969. The staff strength at December 31, 1970 was 243. However, with effect from April 1, 1971, a staff of 294 has been authorized by the Treasury Board.

Brief mention was made last year of the Treasury Board downward classification of the senior staff positions in the Office which is seriously interfering with the efficient discharge of the professional work of the Office. This reclassification or downgrading involved the 28 senior positions in the Office, namely those of Director, Assistant Director and Regional Supervisor, each of which was downgraded in relation to similar positions in other government departments. At the request of the Committee, I outlined this situation to the Public Accounts Committee on December 1, 1970 and asked the Committee to recommend that the Treasury Board establish a separate category which would adequately reflect the type of independent external auditing carried out by my officers. The Committee held meetings on December 3, 8, 10 and 15 to hear witnesses and discuss this matter, following which it reported to the House on December 18 as follows:

> We feel a permanent solution regarding the classification of the Auditor General's staff may well be resolved in a new Auditor General's Act or in the event that it is decided to remove the entire staff from the Public Service in recognition of the unique nature of the Auditor General's vital role.
>
> Members of the Public Accounts Committee are deeply concerned over the serious problem felt by the Auditor General regarding the classification of 28 of his office staff. In order to deal with this urgent and complex problem, we recommend that a suitable bench

mark be established within the Auditor General's Office to which his staff classifications can be related, and we urge that such a bench mark be established in consultation with the Auditor General prior to February 1, 1971.

In the event that satisfaction is not achieved suitable to the Auditor General and his staff, it is recommended that they then employ the approved grievance procedures available to them.

My officers are presently working with the Classification Division of the Treasury Board Secretariat in the development of the recommended bench mark. It is hoped this may result in the Treasury Board giving the recognition to my senior officers that is so long overdue.

Summary of Expenditure and Revenue

12. The Statement of Expenditure and Revenue for the fiscal year ended March 31, 1970, prepared by the Receiver General for inclusion in the Public Accounts and certified by the Auditor General as required by section 64 of the Financial Administration Act, is reproduced as Exhibit 1 to this Report. The Statement shows revenue of $12,324 million, expenditure of $11,931 million and a surplus of $393 million for the year. By comparison, there were deficits of $576 million in the preceding year and $795 million in 1967-68.

Expenditure

13. The Summary of Appropriations, Expenditures and Unexpended Balances by Departments for the fiscal year ended March 31, 1970, as published in the Public Accounts, is reproduced as Exhibit 3 to this Report and shows appropriations of $12,122 million, expenditures of $11,931 million and unexpended balances totalling $191 million.

14. Of the $12,122 million of appropriations available for expenditure in the year, $5,648 million was provided by statutory authorities and $6,468 million was granted by Appropriation Acts (Nos. 2, 3 and 4 of 1969 and No. 1 of 1970) while $6 million remained available from continuing 1968-69 appropriations.

Of the $11,931 million of expenditures during the year, $5,648 million (47%) was incurred under statutory authorities, with $6,283 million (53%) being spent under the authority of appropriations granted for the year and continuing appropriations of previous years.

Of the $191 million of unexpended balances at the year-end, $156 million lapsed in compliance with section 35 of the Financial Administration Act and $35 million pertaining to the following departments and votes remained available for expenditure in 1970-71 because of the special wording of the appropriations:

Department	Vote	Particulars	Amount
External Affairs	35	International food aid program	$ 10,197,000
Finance	4	Contributions to costs of 1969 floods in Manitoba and Saskatchewan	300,000
Indian Affairs and Northern Development	30	Northern mineral development assistance grants	196,000
Industry, Trade and Commerce	36	Losses incurred on operations under the Canadian Wheat Board Act, *R.S., c.44*	8,038,000
Manpower and Immigration	10	Capital assistance in the provision of training facilities	15,313,000
Regional Economic Expansion (1967-68)	100	Housing and mobility assistance	215,000
Secretary of State (1968-69)	2	Construction or acquisition of buildings, works, land and equipment—National Arts Centre	424,000
			$ 34,683,000

15. The lapsed balances of $156 million represented 2.4% of the $6,474 million provided under Appropriation Acts. This was after transferring a total of $35 million between votes with parliamentary authority, thus reducing by $35 million the amount which would otherwise have lapsed at the year-end and as a consequence the Supply that Parliament would otherwise have been asked to provide. An additional $58 million, the balance remaining at the year-end in Treasury Board Vote 5, Contingencies, was transferred from the Vote with parliamentary approval to a reserve for the payment of salary increases with respect to the 1969-70 and previous fiscal years. In the preceding year lapsed balances totalled $172 million (2.9%).

16. The following summary compares expenditure for the fiscal year 1969-70 with that of the previous year:

			Increase (Decrease)	
	1969–70	1968–69	Amount	%
Agriculture	$ 383,834,000	$ 286,881,000	$ 96,953,000	33.8
Communications	353,944,000	332,359,000	21,585,000	6.5
Consumer and Corporate Affairs	16,697,000	13,753,000	2,944,000	21.4
Energy, Mines and Resources	195,739,000	179,692,000	16,047,000	8.9
External Affairs	242,226,000	226,166,000	16,060,000	7.1
Finance	2,846,144,000	2,420,552,000	425,592,000	17.6
Fisheries and Forestry	76,867,000	79,046,000	(2,179,000)	(2.8)
Governor General and Lieutenant-Governors	1,124,000	1,039,000	85,000	8.2
Indian Affairs and Northern Development	311,434,000	266,993,000	44,441,000	16.6
Industry, Trade and Commerce	296,130,000	203,221,000	92,909,000	45.7
Justice	19,662,000	16,931,000	2,731,000	16.1
Labour	155,519,000	136,548,000	18,971,000	13.9
Manpower and Immigration	439,511,000	416,115,000	23,396,000	5.6
National Defence	1,789,508,000	1,760,796,000	28,712,000	1.6
National Health and Welfare	1,957,028,000	1,662,632,000	294,396,000	17.7
National Revenue	144,583,000	119,971,000	24,612,000	20.5
Parliament	22,989,000	18,587,000	4,402,000	23.7
Privy Council	11,256,000	9,270,000	1,986,000	21.4
Public Works	288,244,000	284,771,000	3,473,000	1.2
Regional Economic Expansion	236,061,000	180,789,000	55,272,000	30.6
Secretary of State	553,497,000	522,569,000	30,928,000	5.9
Solicitor General	184,084,000	165,938,000	18,146,000	10.9
Supply and Services	80,821,000	66,375,000	14,446,000	21.8
Transport	510,933,000	508,060,000	2,873,000	.6
Treasury Board	391,095,000	432,328,000	(41,233,000)	(9.5)
Veterans Affairs	422,359,000	427,574,000	(5,215,000)	(1.2)
	$ 11,931,289,000	$ 10,738,956,000	$ 1,192,333,000	11.1

NOTE: Appropriation Act No. 3, 1969, *1968-69, c.36*, authorized the Department of Communications to credit postal revenue received for financial and miscellaneous services to its postal services vote and the Department of National Health and Welfare to credit revenue to its administration, operation and maintenance vote for Medical Services, instead of recording it as non-tax revenue. For purposes of comparison, the expenditure figures for the previous year have been adjusted.

In the following paragraphs attention is drawn to significant increases or decreases in expenditure charged to individual appropriations or groups of appropriations.

17. *Agriculture.* The major increase in expenditure was for a new program to reduce the wheat surplus. A reserve was established in the amount of $100 million for wheat acreage reduction payments of $6 per acre payable in 1970-71 by recording the amount as an expenditure of the 1969-70 fiscal year and crediting the open account, "Undisbursed balances of appropriations to special accounts". Other increases were $3.9 million (21%) in freight assistance payments on feed grains and $2.7 million (45%) in the amount paid to the Farm Credit Corporation to meet its 1969-70 operating loss and the portion of its 1968-69 loss not provided for in the vote for that year. Decreases included $9.1 million (6.2%) in the operating loss of the Agricultural Stabilization Board and $4 million (61%) in payments of quality premiums on high grade hog and lamb carcasses.

The Department's expenditure for 1969-70 does not include retroactive salary adjustments of $7.5 million paid during the year and charged to the reserve for salary revisions.

18. *Communications.* A net increase of $600,000 (4.5%) in departmental expenditure, exclusive of the Post Office, was largely due to an increase of $3.2 million (28%) in administration, operation and maintenance offset by an increase of $2.1 million (45%) in revenue credited to that vote.

Vote 15, Appropriation Act No. 3, 1969, *1968-69, c. 36,* authorized the Post Office to spend $23 million out of postal revenue in 1969-70 thus reducing expenditure from appropriations to $340 million. The comparable expenditure for 1968-69 was $319 million. The increase of $21 million (6.5%) was due primarily to an increase of $11 million in salaries and allowances and $9 million in mail conveyance costs.

The Department's expenditure for 1969-70 does not include retroactive salary adjustments of $3.9 million paid during the year and charged to the reserve for salary revisions.

19. *Consumer and Corporate Affairs.* The increase in expenditure included $1.2 million (22%) in expenditure of the Corporate Affairs Division and $307,000 (26%) in Combines Investigation and Research expenditure. In addition the expenses of the Prices and Incomes Commission, established during the year, were $569,000.

The Department's expenditure for 1969-70 does not include retroactive salary adjustments of $1.5 million paid during the year and charged to the reserve for salary revisions.

20. *Energy, Mines and Resources.* Increases included $6.5 million (46%) in programs for research and investigation on inland water resources and $2.4 million (13%) in the program for marine surveys and research.

The Department's expenditure for 1969-70 does not include retroactive salary adjustments of $5 million paid during the year and charged to the reserve for salary revisions.

21. *External Affairs.* The expenditure of the Canadian International Development Agency increased by $12 million (7.7%) due mainly to an increase of $10 million (6.6%) in economic, technical, educational and other assistance.

The Department's expenditure for 1969-70 does not include retroactive salary adjustments of $1.7 million paid during the year and charged to the reserve for salary revisions.

22. *Finance.* The increase in outstanding bonds and treasury bills, as well as the higher interest rates of the recent issues, largely accounted for the increase of $237 million (16%) in public debt charges. Subsidies and other payments to the provinces increased by $65 million (8%); grants to municipalities by $4 million (10%); and disbursements under the Canada Student Loans Act, *1964-65, c. 24,* by $2 million (20%). In addition, $123 million, recorded as a loan to the Canadian Corporation for the 1967 World Exhibition, was written off under authority of the Expo Winding-up Act, *1969-70, c. 1.* There was no expenditure comparable to the 1968-69 expenditure of $4.4 million for the Royal Canadian Mint which was established as a Crown corporation effective April 1, 1969.

The Department's expenditure for 1969-70 does not include retroactive salary adjustments of $907,000 paid during the year and charged to the reserve for salary revisions.

23. *Fisheries and Forestry.* There was a reduction of $5.4 million (83%) in the amount required to recoup the Fisheries Prices Support Account and an increase of $3.6 million (17%) in the operation and maintenance costs of Fisheries Management and Development.

The Department's expenditure for 1969-70 does not include retroactive salary adjustments of $5 million paid during the year and charged to the reserve for salary revisions.

24. *Indian Affairs and Northern Development.* The Department's administration expense increased by $1.7 million (31%) and the administration, operation and maintenance of its Social Program by $28 million (23%) and its Development Program by $4 million (16%). Other increases included the construction and acquisition of buildings, works, land and equipment, $4.9 million (35%), and payments to the Governments of the Northwest Territories and the Yukon Territory, $5.2 million (44%).

The Department's expenditure for 1969-70 does not include retroactive salary adjustments of $4 million paid during the year and charged to the reserve for salary revisions.

25. *Industry, Trade and Commerce.* Payments under the Prairie Grain Advance Payments Act, *1957-58, c. 2,* totalled $13 million and payments to the Canadian Wheat Board for losses incurred in the wheat, oats and barley pool accounts totalled $40 million compared with $2.6 million and $7 million in 1968-69. Other increases included: $17 million (35%) in the carrying costs of temporary wheat reserves; $12 million (21%) in grants, primarily for the development of the technological capability of Canadian defence and manufacturing industries; $5.4 million (20%) for the administration and operation of the Trade and Industrial Development Program; and $1.7 million (72%) in the costs of Canada's participation in world exhibitions.

The Department's expenditure for 1969-70 does not include retroactive salary adjustments of $5 million paid during the year and charged to the reserve for salary revisions.

26. *Labour.* Canada's contribution to the Unemployment Insurance Fund is a fixed percentage of the total employee-employer contributions. The full year's effect of an amendment (*1967-68, c. 33*) to the Unemployment Insurance Act, *1955, c. 50,* which extended coverage to more employees and established higher contribution rates, was mainly responsible for an increase of $12 million (14%) in Canada's contribution to the Fund.

An increase of $6.1 million (16%) in salary costs of the Department and the Unemployment Insurance Commission largely accounted for the $7.5 million (16%) increase in administration costs.

The Department's expenditure for 1969-70 does not include retroactive salary adjustments of $4.5 million paid during the year and charged to the reserve for salary revisions.

27. *Manpower and Immigration.* Expansion of the training program under the Adult Occupational Training Act, *1966-67, c. 94,* resulted in an increase of $33 million (39%) in the cost of training and $23 million (21%) in training allowances. Capital assistance for provision of training facilities decreased $18 million (17%) and the phase-out of the municipal winter works incentive program reduced this item of expenditure by $21 million (98%).

The Department's expenditure for 1969-70 does not include retroactive salary adjustments of $6.9 million paid during the year and charged to the reserve for salary revisions.

28. *National Defence.* A net increase of $34 million (2.3%) in expenditure for Defence Services included an increase of $42 million (3.3%) in operation and maintenance and a decrease of $4.9 million (27%) in development. There was also an increase of $12 million (12%) in the amortization of the deferred charges resulting from actuarial adjustments in the Canadian Armed Forces Superannuation Account.

The Department's expenditure of $1,790 million does not include $10 million expended from the Department's Surplus Crown Assets Account established by Vote 48, Appropriation Act No. 2, 1966, *1966-67, c. 3,* into which is paid revenue received from the sale of surplus buildings, works, land, material, supplies and equipment; or retroactive salary adjustments of $12.1 million paid during the year and charged to the reserve for salary revisions.

29. *National Health and Welfare.* The increase in expenditure comprised $290 million (18%) in departmental expenditure, exclusive of expenditure by the Medical Research Council, and $4 million (15%) in the amounts expended by the Medical Research Council on scholarships and research grants. The major increases were in respect of contributions to the provinces as follows: $148 million pursuant to the Medical Care Act, *1966-67, c. 64,* expenditure in the year totalling $181 million compared with $33 million

in 1968-69; $74 million (13%) pursuant to the Hospital Insurance and Diagnostic Services Act, *1957, c. 28*; $36 million (14%) pursuant to the Canada Assistance Plan, *1966-67, c. 45,* and the Unemployment Assistance Act, *1956, c. 26;* and $31 million in special payments, which had no counterpart in 1968-69, to terminate the hospital construction grant program. There were decreases in contributions to the provinces under the following programs: $7 million (22%) in General Health Grants; $3 million (79%) pursuant to the Old Age Assistance Act, *R.S., c. 199*; and $2 million (31%) pursuant to the Disabled Persons Act, *1953-54, c. 55.*

The Department's expenditure for 1969-70 does not include retroactive salary adjustments of $4.4 million paid during the year and charged to the reserve for salary revisions.

30. *National Revenue.* The increase in expenditure of $25 million (21%) was due to increases in salaries and allowances following the signing of collective bargaining agreements in 1969-70. Expenditure does not include retroactive salary adjustments of $15 million paid during the year and charged to the reserve for salary revisions.

31. *Public Works.* General administration expense increased by $3.1 million (15%) and the cost of accommodation services by $18 million (11%). Expenditure on roads, bridges and other engineering services decreased by $14 million (26%), including a reduction of $11 million (28%) in Trans-Canada Highway costs, while expenditure of the Canadian Government Exhibition Commission declined $3.3 million (69%).

The Department's expenditure for 1969-70 does not include retroactive salary adjustments of $3.9 million paid during the year and charged to the reserve for salary revisions.

32. *Regional Economic Expansion.* Increases in expenditure included $40 million, pursuant to the Area Development Incentives Act, *1965, c. 12,* payments in the year being $55 million compared with $15 million in 1968-69; $13 million under development agreements with the provinces, payments in the year being $22 million compared with $9 million in 1968-69; $4.8 million (28%) in payments to the Cape Breton Development Corporation; and $4 million relating to coal subventions pursuant to the Atlantic Provinces Power Development Act, *1957-58, c. 25,* payments in the year being $6 million compared with $2 million in 1968-69. There were decreases of $8.8 million (52%) in Canada's share of trunk highway costs and $1.7 million (17%) in construction or acquisition of buildings, works, land and equipment.

The Department's expenditure for 1969-70 does not include retroactive salary adjustments of $1.1 million paid during the year and charged to the reserve for salary revisions.

33. *Secretary of State.* Payments to the provinces for post-secondary education increased $25 million (9%); to the Canadian Broadcasting Corporation $18 million (12%); and to the Canada Council $3.1 million (15%). There was also an increase of $1.7 million (36%) in the expenditure of the Bureau for Translations and $1.7 million was spent on the Bicultural Development Program for which there was no counterpart in 1968-69. Offsetting these amounts were decreases of $13 million (97%) in the expenditure of the

Office of the Chief Electoral Officer, the last general election being in 1968, and $11 million (84%) in construction and related costs of the National Arts Centre.

The Department's expenditure for 1969-70 does not include retroactive salary adjustments of $3.5 million paid during the year and charged to the reserve for salary revisions.

34. *Supply and Services.* The increase in the Supply component was due largely to the reimbursement of losses amounting to $5.7 million in the Defence Production Revolving Fund resulting from the decline in value of stockpiled materials, and in the Services component the increase of $6 million was mainly in respect of salaries.

The Department's expenditure for 1969-70 does not include retroactive salary adjustments of $6.3 million paid during the year and charged to the reserve for salary revisions.

35. *Transport.* Increases in expenditure included $17 million (33%) in administration, operation and maintenance of Marine Services; $14 million (46%) for reimbursement of Central Mortgage and Housing Corporation for expenditure on housing research, community planning and other projects; $2.1 million (165%) in subsidies paid to regional air carriers; $2 million (31%) in expenditure of the National Harbours Board, largely for construction by the Department of Public Works of retaining walls along the St. Charles River in the Province of Quebec; $1.7 million (40%) in the administration, operation and maintenance expenditure of the Canadian Transport Commission; and payments totalling $4.4 million under the Atlantic Region Freight Assistance Act, *1968-69, c. 52,* which had no counterpart in the previous year. There were decreases of: $14 million (15%) in payments to railway and transportation companies under the provisions of the National Transportation Act, *1966-67, c. 69;* $12 million (30%) in Marine Services for construction or acquisition of buildings, works, land and equipment; and $4.5 million (16%) in the deficit arising from the operation of the national railway system.

There was a recorded increase in Air Services net administration expenditure of $17 million (19%) and a recorded decrease in capital expenditure of $22 million (37%). This variation in expenditure results from the new policy, effective April 1, 1969, under which the operations of the Montreal and Toronto International Airports are recorded in an Airports Revolving Fund which was authorized by Transport Vote L160. Net revenue earned at these Airports, which had been credited to the Administration Vote in the previous year, amounted to $18 million and was credited to the Revolving Fund while capital expenditure, which had been charged to the Construction Vote in previous years, amounted to $23 million and was charged to the Revolving Fund.

The Department's expenditure for 1969-70 does not include retroactive salary adjustments of $13 million paid during the year and charged to the reserve for salary revisions.

36. *Treasury Board.* There was a reduction of $62 million (52%) in the amount credited to the "Reserve for salary revisions" offset in part by increases of $15 million (9.6%) in contributions to the Public Service Superannuation Account and $1.3 million (24%) in the cost of administration due mainly to increased salary costs.

The Treasury Board's expenditure for 1969-70 does not include retroactive salary adjustments of $1.1 million paid during the year and charged to the reserve for salary revisions.

37. *Commissions under Part I of the Inquiries Act, R.S., c. 154.* The expenditure of these Commissions during 1969-70 and their cumulative expenditure from the respective dates of establishment to March 31, 1970 were:

	Date of establishment	Number of employees at March 31, 1970	Expenditure during year	Cumulative expenditure
Royal Commission on:				
Pilotage	Nov. 1, 1962	9	$ 187,000	$ 1,328,000
Bilingualism and Biculturalism	July 19, 1963	37	869,000	8,729,000
Farm Machinery	May 26, 1966	18	335,000	1,388,000
The Status of Women in Canada	Feb. 16, 1967	19	576,000	1,660,000
Indian Claims Commission	Dec. 19, 1969	--	13,000	13,000
Commission of Inquiry into the Vehicular Delivery of Mail in Montreal	March 17, 1970	—	5,000	5,000
		83	*1,985,000*	*13,123,000*
The Commission of Inquiry into the Non-Medical Use of Drugs	May 29, 1969	13	461,000	461,000
Prices and Incomes Commission	June 19, 1969	62	569,000	569,000
		158	$ 3,015,000	$ 14,153,000

The expenditure of six of these Commissions was charged to a Privy Council appropriation while the expenditure of the Commission of Inquiry into the Non-Medical Use of Drugs was charged to an appropriation of the Department of National Health and Welfare and that of the Prices and Incomes Commission was charged to an appropriation of the Department of Consumer and Corporate Affairs.

Revenue

38. The Summary of Revenue by Main Classifications and Departments for the fiscal year ended March 31, 1970, prepared by the Receiver General for inclusion in the Public Accounts and certified by the Auditor General, is reproduced as Exhibit 4 to this Report. The Summary shows tax revenue accounting for $10,955 million of the total revenue of $12,324 million.

39. The following table summarizes the revenue, by principal sources, for the past three years:

	1969–70	1968–69	1967–68
Tax revenue—			
Personal income tax	$ 4,085,121,000	$ 3,356,431,000	$ 2,849,574,000
Corporation income tax	2,611,961,000	2,030,040,000	1,670,589,000
Income tax on dividends, interest, etc., going abroad	248,511,000	205,566,000	220,472,000
Social development tax	476,500,000	63,000,000	—
Sales tax	1,716,899,000	1,569,841,000	1,601,093,000
Excise taxes (other than sales tax)	378,424,000	377,865,000	337,048,000
Customs import duties	818,283,000	761,681,000	746,437,000
Excise duties	518,844,000	509,288,000	488,554,000
Estate tax	100,631,000	112,377,000	102,192,000
Other tax revenue	251,000	250,000	303,000
	10,955,425,000	*8,986,339,000*	*8,016,262,000*
Non-tax revenue—			
Return on investments	860,032,000	695,099,000	612,275,000
Net postal revenue	354,753,000	288,441,000	260,177,000
Other non-tax revenue	153,635,000	192,964,000	113,002,000
	1,368,420,000	*1,176,504,000*	*985,454,000*
	$ 12,323,845,000	$ 10,162,843,000	$ 9,001,716,000

NOTE: In 1968–69 and 1969–70 revenue from services provided by the Department of Communications and by the Marine Services and Air Services of the Department of Transport was credited to the related appropriations under authority of Appropriation Act No. 4, 1968, *1968–69, c.11*, and Appropriation Act No. 3, 1969, *1968–69, c.36*, instead of being recorded as non-tax revenue. In 1969–70 revenue from medical services provided by the Department of National Health and Welfare and postal revenue received for financial and miscellaneous services provided by the Post Office have been credited to the related appropriations, under the authority of Appropriation Act No. 3, 1969, instead of being recorded as non-tax revenue. For purposes of comparison, the revenue figures for the previous years have been adjusted.

40. The amounts shown for income taxes and sales tax do not include collections of taxes levied under the Old Age Security Act, *R.S., c. 200.* These taxes, which amounted to $1,831 million ($1,027 million on personal income, $227 million on corporation income, and $577 million on sales), were credited to the Old Age Security Fund.

41. *Excise taxes (other than sales tax).* The following is a summary of collections during the year ended March 31, 1970, with comparable amounts for the two previous years:

	1969–70	1968–69	1967–68
Cigarettes	$ 272,949,000	$ 281,906,000	$ 241,441,000
Television sets and tubes	25,137,000	19,976,000	15,266,000
Toilet articles and preparations	19,755,000	18,552,000	17,934,000
Manufactured tobacco	18,110,000	17,560,000	21,169,000
Phonographs, radios and tubes	15,627,000	15,370,000	17,315,000
Jewellery, clocks, watches, chinaware, etc.	10,394,000	9,462,000	10,155,000
Wines	6,991,000	5,860,000	5,327,000
Cigars	4,786,000	4,711,000	4,076,000
Sundry	5,830,000	5,201,000	4,927,000
Refunds and drawbacks	−1,155,000	−733,000	−562,000
	$ 378,424,000	$ 377,865,000	$ 337,048,000

42. *Excise duties.* A listing of excise duties collected during the year ended March 31, 1970, in comparison with corresponding amounts for the two previous years, is given in the following table:

	1969–70	1968–69	1967–68
Spirits	$ 194,733,000	$ 185,368,000	$ 180,401,000
Cigarettes	185,966,000	188,702,000	187,242,000
Beer	139,353,000	134,970,000	120,239,000
Other	7,906,000	7,977,000	7,370,000
Refunds and drawbacks	−9,114,000	−7,729,000	−6,698,000
	$ 518,844,000	$ 509,288,000	$ 488,554,000

43. *Return on investments.* The following is a listing of the revenue from loans and investments in 1969-70, along with the comparable figures for the two previous years:

	1969–70	1968–69	1967–68
Bank of Canada	$ 228,735,000	$ 186,155,000	$ 177,024,000
Central Mortgage and Housing Corporation	228,660,000	199,070,000	163,328,000
Exchange Fund Account	105,073,000	84,510,000	55,189,000
Farm Credit Corporation	59,988,000	50,530,000	34,611,000
Deposits with chartered banks	51,016,000	20,084,000	23,351,000
Canadian National Railways	50,706,000	35,851,000	22,478,000
Loans to national governments	24,742,000	6,356,000	25,097,000
Veterans' Land Act loans	18,959,000	16,071,000	12,989,000
Municipal Development and Loan Act	14,627,000	14,193,000	12,716,000
The St. Lawrence Seaway Authority	10,327,000	13,259,000	10,849,000
Northern Canada Power Commission	7,306,000	4,528,000	3,834,000
Export Credits Insurance Corporation	6,402,000	11,311,000	9,473,000
Polymer Corporation Limited	6,250,000	3,150,000	2,600,000
Canadian Broadcasting Corporation	6,068,000	4,762,000	3,760,000
National Harbours Board	4,624,000	2,146,000	1,410,000
Canadian Dairy Commission	4,223,000	2,197,000	913,000
Special United States of America securities—Columbia River Treaty	3,834,000	5,209,000	6,598,000
National Capital Commission	3,449,000	3,831,000	3,793,000
Province of Quebec—Quebec's share re guarantee 1967 World Exhibition loan	3,298,000	1,911,000	—
Canadian Overseas Telecommunication Corporation	2,458,000	2,620,000	2,495,000
Loans to industry	1,689,000	1,204,000	987,000
Passport Office	1,396,000	—	—
Atomic Energy of Canada Limited	1,306,000	844,000	655,000
Canadian Government Supply Service	1,062,000	1,320,000	686,000
Government of the Northwest Territories	1,020,000	729,000	480,000
Other loans and investments	12,814,000	23,258,000	36,959,000
	$ 860,032,000	$ 695,099,000	$ 612,275,000

The amount shown as revenue from the Bank of Canada represents the profit for 1969 which was paid to the Receiver General as required by section 28 of the Bank of Canada Act, *R.S., c. 13.*

Revenue from Central Mortgage and Housing Corporation for 1969-70 comprised $218,930,000 ($190,586,000 in 1968-69) interest on advances under section 22 of the Central Mortgage and Housing Corporation Act, *R.S., c. 46,* and $9,730,000 ($8,484,000 in 1968-69) profit for the year ended December 31, 1969 which was transferred to the Receiver General as required by section 30 of the Act.

Revenue from the Exchange Fund Account comprised earnings of $104,237,000 on investments and net profit of $836,000 from trading operations in foreign exchange, gold and securities less the net loss from valuation adjustments on unmatched purchases or sales of foreign exchange, gold and securities, paid into the Consolidated Revenue Fund in accordance with the requirements of section 24 of the Currency, Mint and Exchange Fund Act, *R.S., c. 315.*

Interest is earned on amounts exceeding an aggregate of $100 million on deposit with chartered banks. The interest is calculated weekly on the lowest daily balance within the week at the weekly average accepted treasury bill tender rate for the three months treasury bills, less 10%.

Revenue from loans to national governments included receipts from the United Kingdom of $3,462,000 ($2,707,000 in 1968-69) covering current interest on deferred principal and interest and $17,700,000 covering current interest on the unmatured portion of the loan. In 1968-69 interest amounting to $18,093,000 on the unmatured portion of the loan was deferred in accordance with the 1957 amendment (*1957, c. 37*) to The United Kingdom Financial Agreement Act, 1946, *1946, c. 12.*

Revenue from The St. Lawrence Seaway Authority comprised $9,422,000 received on account of deferred interest and $905,000 received on account of current interest.

Revenue in 1969-70 from loans under section 21A of the Export Credits Insurance Act, *R.S., c. 105,* represents interest received on these loans in the six-month period ended September 30, 1969. As of October 1, 1969 these loans were assumed by the Export Development Corporation established by the Export Development Act, *1968-69, c. 39,* as successor to the Export Credits Insurance Corporation.

Revenue from Polymer Corporation Limited represents dividends received from the Corporation.

Revenue from the Canadian Dairy Commission represents interest on loans made to the Commission by the Minister of Finance under the authority of section 16 of the Canadian Dairy Commission Act, *1966-67, c. 34.*

Revenue of $3,834,000 from special United States of America securities represents interest for the year ended November 1, 1969 at $4\frac{1}{4}$% on holdings of $90.3 million.

The revenue of $3,298,000 from the Province of Quebec represents interest on notes received by Canada with respect to the Province's share of the deficit of the Canadian Corporation for the 1967 World Exhibition.

Revenue from loans to industry consists mainly of interest on loans to manufacturers of automotive products in Canada affected by the Canada-United States Agreement on Automotive Products.

44. *Net postal revenue.* The following table shows the gross postal revenue, disbursements therefrom, and the resulting net postal revenue for the year ended March 31, 1970, with comparable figures for the two previous years:

	1969–70	1968–69	1967–68
Gross postal revenue	$ 430,378,000	$ 363,339,000	$ 327,104,000
Less: Revenue from financial and miscellaneous services credited to Communications Vote 15—Postal Services as authorized by Appropriation Act No. 3, 1969, *1968–69, c.36.*	23,393,000	22,184,000	21,469,000
	406,985,000	341,155,000	305,635,000
Disbursements—			
Remuneration of postmasters and staffs at certain classes of small post offices	46,340,000	47,168,000	39,484,000
Other	5,892,000	5,546,000	5,974,000
	52,232,000	*52,714,000*	*45,458,000*
Net postal revenue	$ 354,753,000	$ 288,441,000	$ 260,177,000

Note: In 1969–70 revenue of $23,393,000 from financial and miscellaneous services was credited to Communications Vote 15—Postal Services under the authority of Appropriation Act No. 3, 1969, *1968–69, c.36.* For purposes of comparison, the corresponding amounts are shown as deductions from gross postal revenue of the two previous years.

The $67 million increase in gross postal revenue is attributable mainly to increased postal rates effective November 1, 1968 which were in effect throughout the full year 1969-70.

The amounts shown for "Other" disbursements comprise delivery charges on parcels mailed in Canada to foreign countries and transit charges on Canadian mail forwarded through foreign countries, compensation paid to messengers for special delivery of letters and parcels, losses by fire, theft, forgery, etc., and indemnities paid in respect of lost or damaged parcels and registered articles.

45. *Other non-tax revenue.* An analysis of the amounts shown for "Other non-tax revenue" for the past three years follows:

	1969–70	1968–69	1967–68
Services and service fees	$ 21,940,000	$ 25,203,000	$ 26,260,000
Proceeds from sales	16,685,000	17,199,000	17,111,000
Privileges, licences and permits	29,684,000	32,648,000	21,848,000
Refunds of previous years' expenditure	29,727,000	23,665,000	21,057,000
Bullion and coinage	19,940,000	74,764,000	10,672,000
Miscellaneous	35,659,000	19,485,000	16,054,000
	$ 153,635,000	$ 192,964,000	$ 113,002,000

Note: In 1968–69 and 1969–70 revenue from services provided by the Department of Communications and by the Marine Services and Air Services of the Department of Transport was credited to the related appropriations, under authority of Appropriation Act No. 4, 1968, *1968–69, c.11,* and Appropriation Act No. 3, 1969, *1968–69, c.36,* instead of being recorded as non-tax revenue. In 1969–70 revenue from medical services provided by the Department of National Health and Welfare was credited to the related appropriation, under authority of Appropriation Act No. 3, 1969, instead of being recorded as non-tax revenue. For purposes of comparison, the revenue figures for the previous years have been adjusted.

The decrease of $54.8 million in bullion and coinage revenue was largely due to the substantial decrease in the quantity of nickel coin issued. In addition, operating costs of the Royal Canadian Mint, which were formerly charged to an appropriation of the Department of Finance and amounted to $4.4 million in 1968-69, were included in the cost of coin and bullion.

Revenue classified as "Refunds of previous years' expenditure" and "Miscellaneous" includes $5,000,000 and $4,000,000 respectively, resulting from a decision during the year to increase the value of the investment in Panarctic Oils Ltd. from a nominal value of one dollar to the actual cost of $9,000,000 which had been charged to appropriations in prior years and in the current year.

Comments on Expenditure and Revenue Transactions

46. Reference has already been made to the statutory responsibility of the Auditor General, under section 70 of the Financial Administration Act, to call attention to specific classes of transactions observed during his examinations and to any other case that he considers should be brought to the notice of the House of Commons.

Pursuant to this direction, the following matters relating to the expenditure and revenue transactions examined during the year are brought to the attention of the House in this Report. Several matters of a similar nature relative to Crown corporations are also included. A number involve non-productive payments, the details of which are given at the request of the Public Accounts Committee. Some of these had their origin in prior years although in most cases payments were made in 1969-70.

47. *Weakening of parliamentary control.* In section 25 of the Financial Administration Act Parliament has directed that:

> All estimates of expenditures submitted to Parliament shall be for the services coming in course of payment during the fiscal year.

In Canada, this wording first appeared in Chapter 7 of the Statutes of 1878, "An Act to provide for the Better Auditing of the Public Accounts", the words "coming in course of payment" having been taken from the British Exchequer and Audit Act of 1866. In 1869 the Librarian of the Canadian Parliament, Alpheus Todd, LL.D., C.M.G., in his book on *Parliamentary Government in England,* described the history of these words as follows:

> In 1857 the Committee on Public Moneys reported a recommendation, that 'all unexpended balances should be surrendered, and grants unapplied, but required for the completion of the services to which they had been appropriated, should be revoted.' The Committee on the Miscellaneous Estimates in 1860 made a similar recommendation; as also did the Committee on Public Accounts, in 1861, in their fifth report. On June 24, 1861, the under-secretary to the treasury informed the House that the government were making arrangements to carry out these suggestions. The new system was partially introduced in the same year but it was not universally adopted until the following session. On March 31, 1863, 'for the first time in our financial history, all the services were required to surrender the balances standing to their credit' into the Exchequer. The votes are now taken 'for services coming in course of payment during the year,' instead of, as heretofore, 'for the services of the year.' By this means, the highly objectionable system of allowing running balances to go from year to year has been stopped, and the control of Parliament over the public expenditure has been practically guaranteed.

From this quotation it will be seen that one of the steps taken by Parliament in obtaining control over public expenditure was the elimination of "running balances" that were available from year to year.

Included in the Estimates of 1969-70 are the following amounts which were not required during the year but which did not lapse at the year-end in compliance with

section 35 of the Financial Administration Act because of special wording of the several vote texts in the Appropriation Acts which received the approval of Parliament when the Appropriation Acts were passed:

Agriculture Vote 17b	
Reserve for wheat inventory reduction payments	$ 100,000,000
Secretary of State Vote 30	
Canadian Broadcasting Corporation	11,993,000
Transport Vote 80	
National Harbours Board—Special Account	2,036,000
Treasury Board Vote 5a	
Reserve for salary revisions 1969-70	58,656,000
	$ 172,685,000

All of these amounts were included as expenditure of the year under the several votes, although they were not expended but were retained to meet obligations coming in course of payment in future years.

The amount of $11,993,000 shown for the Canadian Broadcasting Corporation is the portion of Secretary of State Vote 30 which was paid to the Corporation, although it was not required to meet the 1969-70 operating expenditures of the broadcasting service. In prior years such excess amounts in the appropriations lapsed.

The amount of $2,036,000 shown for the National Harbours Board—Special Account is the unspent balance of $3,000,000 provided by Transport Vote 80 for the construction of retaining walls along the banks of the St. Charles River between the proposed dam at the mouth of the River and Scott Bridge at Quebec Harbour. The work is being carried out by the Department of Public Works and the only involvement of the National Harbours Board in the construction of these retaining walls appears to be the reimbursement, from the moneys provided to it from Transport Vote 80, of claims submitted by the Department of Public Works. The dam at the mouth of the St. Charles River has been under construction by the Department of Public Works since 1965-66 with expenditures totalling $2.1 million provided by annual appropriations for that Department.

While the Canadian Broadcasting Corporation and the National Harbours Board are separate legal entities, they are nevertheless emanations of the Crown, and the holding of large sums at their disposal is a means of circumventing Parliament's instruction that all estimates that are submitted to it shall be for services coming in course of payment during the fiscal year.

The reserves of $100,000,000 for wheat inventory reduction payments and $58,656,000 for salary revisions are held in special accounts in the Consolidated Revenue Fund, which are included under the caption "Undisbursed Balances of Appropriations to Special Accounts" on the year-end Statement of Assets and Liabilities of the Government of Canada.

Another amount included in the Estimates of the year and in the recorded expenditure of the year although it was not paid out during the year is the $4,360,000 by

which transfers from appropriations to the National Capital Fund exceeded the net expenditure from the Fund during the year. These transfers are made in accordance with the provisions of the National Capital Act, *1958, c.37*. At March 31, 1970 the National Capital Fund amounted to $13,528,000.

Had these amounts not been included in the 1969-70 Appropriation Acts and then recorded as expenditure of the year, the surplus for the year would have been greater by $177,045,000 or 47%.

At March 31, 1970 funds available without further reference to Parliament to meet expenditures coming in course of payment subsequent to that date, which would normally be paid from current parliamentary appropriations, included:

Reserve for wheat inventory reduction payments		$ 100,000,000
International Assistance Account		84,942,000
Reserve for salary revisions		64,332,000
National Capital Fund		13,528,000
Canadian Broadcasting Corporation		11,993,000
Department of National Defence		
Surplus Crown Assets Account	$ 10,769,000	
Replacement of materiel account	681,000	
		11,450,000
Canadian Dairy Commission		7,534,000
National Harbours Board—Special Account		2,036,000
Centennial of Confederation Fund		848,000
		$ 296,663,000

One of the most important controls exercised by Parliament over public expenditure is its requirement that all estimates of expenditure submitted to it shall be for the services coming in course of payment during the fiscal year. This control is seriously weakened when funds are credited to special accounts to be available for spending in future years.

48. *Contingencies Vote.* In previous Reports (paragraph 47 in 1969) we have referred to the annual Contingencies Vote provided to the Treasury Board to supplement other votes for paylist and other requirements and to provide for miscellaneous minor and unforeseen expenses. Authority is also provided to re-use any sums allotted from this Vote for non-paylist requirements and repaid from other appropriations. By having such a vote available, the Treasury Board Secretariat is able to instruct departments to provide in their estimates only for known requirements and not to include any cushion against unexpected obligations.

Under normal conditions the amount required for this purpose is not large, but in the past six years the annual provision has been substantial due mainly to the large-scale salary increases throughout the government service. The following summary

shows the annual provision, the extent to which it has been used for transfers to other votes that were not recovered from supplementary appropriations, and the unused balance at the year-end:

		Transferred to other votes		Unused balance	
	Provided	Paylists	Miscellaneous	Lapsed	Transferred to reserve account
1964-65.........	$ 46,000,000	$ 35,603,000	$ 2,198,000	$ 8,199,000	$
1965-66.........	71,000,000	64,865,000	1,796,000	4,339,000	
1966-67.........	110,000,000	106,227,000	572,000	3,201,000	
1967-68.........	45,000,000	22,830,000	11,000,000	11,170,000	
1968-69.........	175,000,000	54,463,000	8,000		120,529,000
1969-70.........	100,000,000	40,746,000	598,000		58,656,000

Miscellaneous transfers in 1969-70 amounted to $23,923,000 of which all but $598,000 was recovered from supplementary appropriations which included the items for which the original transfers were requested.

Members of the Public Accounts Committee have expressed concern that large sums are placed in the hands of the Executive for the supplementing of appropriations of the various departments. In its Thirteenth Report 1966-67 the Committee stated that additional amounts required by each department should be made the subject of a supplementary estimate prepared by the department concerned for submission to Parliament for its consideration and appropriation in the usual manner. (See Appendix 1, item 33.)

Not only has the practice which has concerned the Public Accounts Committee been continued, but the purposes of the Contingencies Vote were extended in 1968-69 and again in 1969-70 to establish a reserve from the unused balance of the appropriation, from which payments may be made in respect of salary increases relating to previous years for persons employed in the public service. In 1968-69, $120,529,000 had been charged to expenditure and credited to the reserve. In the current year, $114,853,000 in retroactive salary increases was paid out of the reserve leaving a balance of $5,676,000. At the year-end this reserve was further increased by charging expenditure with $58,656,000—the amount still available in the Contingencies Vote—bringing the total amount available in the next fiscal year to $64,332,000.

Reference is made in paragraph 120 of this Report to an irregular payment made from the Contingencies Vote.

49. *Revised vote pattern.* The vote pattern used in the 1969-70 Estimates was first introduced in the 1964-65 Estimates following a recommendation of the Public Accounts Committee in its Third Report 1963. Variations from the vote pattern recommended by the Committee which have been commented on in previous Reports were continued in 1969-70.

In its First Report 1968-69, presented to the House on January 29, 1969, the Public Accounts Committee recommended certain criteria to be used in determining the votes

required under a proposed revised form of Estimates which was to be introduced in 1970-71. (See paragraph 46 of our 1969 Report.) The Committee directed the Auditor General to note the manner in which the criteria had been applied and to advise the House thereon in his next Report.

The 1970-71 Estimates, tabled in the House on February 11, 1970, present the proposed expenditures of the Government by programs, and activities within each program, for the fiscal year. For each program the related votes are summarized to provide the total net cash requirements for the program. This is followed by a summary of the program by activities, showing the estimated cost and man-year requirements for each activity. Also shown is the revenue to be generated by the program, the portion of that revenue which may be expended on the program, and the value of services provided without charge by other government departments.

This new approach has resulted in a more informative presentation of the Estimates but there has been a reduction of 88 in the number of vote items, from 298 in 1969-70 to 210 in 1970-71. Generally speaking, the vote pattern follows that which was discussed with the Public Accounts Committee late in 1968 and the criteria recommended by the Committee.

We will not be in a position to comment on these Estimates in detail until the audit for the year 1970-71 is complete. However, matters which have already come to our attention include the following:

1. In the appropriations which provide authority to spend revenue the estimate of the revenue still appears only in the Estimates details rather than in the Appropriation Act. Thus, no recognition has been given to the view expressed in each of our Reports since 1966 (paragraph 49 in 1969) that to ensure parliamentary control over expenditure, where authority is provided for the spending of revenue, three figures—estimated gross expenditure, estimated revenue and net amount appropriated—should appear in the appropriation itself and the amount of revenue used to supplement the net amount appropriated should be limited to the estimated revenue shown in the appropriation. (See also paragraph 50 of this Report.)

2. Parliamentary control has been further weakened by showing the amount of some votes as a net amount after deducting, in the "Program by Activities", an amount representing the anticipated recovery of expenditure from the vote which was not provided for in the vote. For example, the 1970-71 Vote 1 of the Department of Transport provides a net amount for Administration after deducting from the estimated expenditures an amount of $200,000. There is no explanation of this $200,000 item and nowhere in the Estimates can Members of the House find the information that the Department of Transport expects to receive $200,000 from other government agencies such as the Canadian Transport Commission in payment of computer services provided to those agencies. It has long been accepted that expenditure falling within the ambit of a vote, but not provided for in the vote, which is later recovered may be credited to the vote. There must, however, be no supplementation of the vote and therefore such credits should be restricted to recoveries of only clearly identifiable expenditures. This is not the case in the example referred to and in our opinion such recoveries of costs should be regarded as revenue and credited to the vote only with the appropriate authority and with the amount controlled as is suggested in (1).

3. In paragraph 63 of our 1969 Report we expressed the view that words which represent an amendment to legislation should be included in the text of the vote which appears in the Appropriation Act rather than in the text of a "sub-vote" which appears only in the Details of Services of the Estimates. This questionable practice was continued in the 1970-71 Estimates in Indian Affairs and Northern Development Vote 35 which, in our opinion, should have included the words which have been italicized in the following "sub-vote" text:

    Northern Mineral Development Assistance Grants—*To increase by $2,500,000 the amount authorized to be expended for the purposes of Indian Affairs and Northern Development Vote 30c, Appropriation Act No. 1, 1968,* additional amount required.

    Even this wording is deficient in that it does not reveal the total authorized, which is $14,600,000, nor does it refer to Vote 7a, Appropriation Act No. 9, 1966, *1966-67, c.55,* which provided the initial authority.

4. The criteria recommended by the Committee included:

    Each department, agency or legal entity shall require one or more votes as the case may be.

    In all cases where agencies or Crown corporations are incurring a deficit or related deficits which must be covered by an appropriation, these will be the subject of a separate vote.

    Grants, Contributions and Subsidies being of a special nature, therefore requiring a different type of consideration, will be the subject of a separate vote when the total within a departmental program exceeds $5 million.

    In several instances these criteria were not followed in the 1970-71 Estimates. For example, there is no separate vote for the Agricultural Stabilization Board and an amount of $119,000,000 to cover the Board's anticipated net operating loss was included in Agriculture Vote 15—Grants and Contributions, the full amount of the Vote being $132,726,000. Similarly, there is no separate vote for grants and contributions of the Department of Indian Affairs and Northern Development amounting to $44,727,000 which have been provided for in that Department's Vote 5, which provides a total of $165,515,000 for operating expenditures of the Department's Indian and Eskimo Affairs Program. This latter deviation from the recommended criteria is explained in paragraph 24 on page X of the Foreword to the 1970-71 Estimates as follows:

    The payments made for general assistance to Indians and Eskimos under the Indian and Eskimo Affairs Program of the Department of Indian Affairs and Northern Development are grants which, since they exceed $5 million in total, would ordinarily be included in a separate grants and contributions vote. An exception is made in this case and the grants and contributions under this program are carried in a vote which includes operating and capital expenditures so as to allow the Department flexibility to provide the required assistance in the most effective manner throughout the year, whether through welfare payments or through measures normally funded in operating and capital expenditure votes. Similarly, the operating expenditures vote in the Northern Development Program includes provision for more than $5 million in grants and contributions for the purpose of providing greater flexibility.

50. *Supplementing parliamentary appropriations.* In previous Reports (paragraph 49 in 1969) we have drawn attention to the weakening of parliamentary control over expenditure when appropriations containing provisions for the spending of revenue received during the year may be supplemented in the event that the revenue received is in excess of the revenue estimated. We cited examples of appropriations which had been supplemented in this manner. We also referred to three appropriations in 1968-69 which were not supplemented only because the vote texts stipulated that the commitments were not to exceed a stated amount, which was the gross estimated expenditure for the vote appearing in the Details of Services in the Estimates. This served to limit the spending of revenue to the amounts estimated, although in two of these votes the

revenue received exceeded the estimate. We reiterated our recommendation that the use of revenue be limited to the estimated amount of revenue recorded in the Details of Services in the Estimates.

No change was made in 1969-70 to those appropriations which authorized the spending of revenue and the vote wording in the Estimates for 1970-71 also indicates no change. However, the limitation on the amount of commitments which appeared in several appropriations in 1968-69 and 1969-70 was dropped from the text of these votes in the 1970-71 Estimates, thereby removing from parliamentary control in 1970-71 any revenue received that may be in excess of estimated revenue.

We noted the following appropriations, authorizing the spending of revenue received during the year, in which revenue received was in excess of the estimated revenue taken into consideration in determining the net amount to be appropriated by Parliament:

Appropriation	Estimated revenue	Actual revenue	Excess of actual revenue over estimated revenue	
			Used	Unused
Agriculture Vote 40	$ 1,043,000	$ 1,159,000	$ 99,000	$ 17,000
National Health and Welfare Vote 20	6,198,000	8,074,000	—	1,876,000
National Revenue Vote 1	1,460,000	1,553,000	—	93,000
Solicitor General Vote 15	35,760,000	37,344,000	—	1,584,000
Veterans Affairs Vote 30	25,739,000	26,946,000	—	1,207,000

Although Agriculture Vote 40 was the only vote in which revenue received in excess of revenue estimated was expended, the unused amounts in this and the other four votes were available for spending during the year, without further authority of Parliament.

The administration, operation and maintenance appropriations of the Department of Communications (Vote 1) and the Department of Transport (Vote 30) for Air Services also authorized the spending of revenue received during the year. In each case the revenue received was in excess of the revenue estimated, being $722,000 more than the estimate of $5,994,000 for Communications Vote 1 and $2,045,000 more than the estimate of $36,243,000 for Transport Vote 30. However, as each vote also stipulated that the commitments were not to exceed a stated amount, which was the gross amount of the expenditure for the vote appearing in the Details of Services in the Estimates, this served to limit the spending of revenue to the amounts estimated.

Treasury Board Circular No. 1969-94 of July 14, 1969 directs that where authority has been provided in a particular vote to spend revenues and where the receipts actually collected amount to more than 125% of the amount forecast in the Estimates, the excess is to be credited to a separate allotment which may be spent only with Treasury Board approval. Thus the Treasury Board has retained for itself control over that portion of the excess which exceeds 25% of the revenue originally estimated.

We reiterate our view that to ensure parliamentary control over expenditure, where authority is provided for the spending of revenue, three figures—estimated gross expen-

diture, estimated revenue and net amount appropriated—should appear in the appropriation itself and the amount of revenue used to supplement the net amount appropriated should be limited to the estimated revenue shown in the appropriation.

51. *Unpaid accounts carried forward to new fiscal year.* A summary of accounts properly chargeable to 1969-70 which were not paid in that year appears on pages 10.34 to 10.36 of Volume I of the Public Accounts. The amounts shown in the summary are divided into six categories, the totals of which are as follows:

Invoices received on or before April 30, 1970:		
Interdepartmental—		
Insufficient funds	$ 3,844,000	
Other reasons	1,202,000	
		5,046,000
Other—		
Insufficient funds	13,564,000	
Other reasons	13,326,000	
		26,890,000
Invoices received after April 30, 1970:		
Interdepartmental	1,848,000	
Other	15,850,000	
		17,698,000
		$ 49,634,000

This year's summary differs from the summary provided in 1968-69 in the following respects and a comparison with the previous year's figures can only be made in total:

1. During the year departments and agencies assumed responsibility for maintaining their own accounts so that there is no longer a distinction between unpaid accounts held by them and those held in departmental services offices at April 30.
2. Unpaid accounts have been classified this year for the first time as "Interdepartmental" and "Other".
3. Accounts received after April 30 have not been divided into those for the payment of which funds were available and those which could not have been paid because of lack of funds.

The total of $49,634,000 for the unpaid accounts reported this year compares with the total of $87,514,000 last year.

Not included in the summary are the following amounts pertaining to the Department of Indian Affairs and Northern Development:

- $1,106,000 representing a balance owing to the Department of Natural Resources of the Province of Quebec for municipal services provided at Poste-de-la-Baleine, Que., during the period April 1, 1966 to March 31, 1970. Agreement with respect to the account and the proposed method of settlement was not reached until early April 1970 and for this reason the federal Department regards the account as contracted in 1970-71. Nevertheless, the services had been provided prior to the end of 1969-70. Sufficient funds were not available in the 1969-70 or 1970-71 appropriations of the federal Department to pay the full amount owing and therefore the Province was advised that up to $75,000 only would be paid in 1970-71 and the balance in 1971-72.
- $60,000 for progress claim 5, being one of six claims totalling $265,000 submitted by a contractor for work done prior to March 31, 1970. A condition of the contract was that

no payment in excess of $184,000 would be made in 1969-70 unless an increase was authorized by the engineer in writing. Actually $205,000 was paid in 1969-70. As the services had been rendered, the claim was owing at the year-end and it could have been paid from Indian Affairs and Northern Development Vote 40 in which sufficient funds were available. However, since it was not paid, it should have been listed as an unpaid account at the year-end.

Of the accounts received on or before April 30 and categorized as unpaid for reasons other than "insufficient funds", accounts totalling $908,000 could not have been paid because sufficient funds were not available in the votes.

Of the accounts totalling $17,698,000 received after April 30, $8,287,000 could not have been paid in any event as sufficient funds were not available in the votes.

The relationship of these unpaid accounts, including the accounts totalling $1,166,000 which were not reported in the Public Accounts, to the availability of funds may be seen from the following which also shows the comparable amounts for the previous year:

	March 31	
	1970	1969
Failure to pay although funds were available	$ 13,680,000	$ 4,651,000
Failure to obtain transfers between allotments	—	87,000
Failure to get accounts in on time	9,411,000	14,822,000
Failure to seek supplementary appropriations	19,422,000	36,182,000
Failure to get accounts in on time and to seek supplementary appropriations	8,287,000	30,409,000
	$ 50,800,000	$ 86,151,000

No explanation is given in the summary for the non-payment in the year of accounts totalling $14,528,000 which were on hand at April 30 and for which funds were available to the extent of $13,620,000.

It will be noted that the unpaid accounts decreased by $35,351,000 from those unpaid at the end of the previous year. Therefore the expenditure actually applicable to 1969-70 was $35,351,000 lower than was recorded. However, the 1969-70 appropriations were intended to cover accounts coming in course of payment during the year and technically 28 appropriations were overspent by $27,709,000.

In previous Reports (paragraph 50 in 1969) we have referred to the provisions of section 30 of the Financial Administration Act and to the amendment of this section which, with effect from April 1, 1969, imposed on deputy heads or other persons charged with the administration of a service the responsibility for operating commitment control records for each parliamentary appropriation in such a way that they are in a position at any time to determine the balance remaining in an appropriation that is available for further commitment. We pointed out that Parliament has modified the requirements of section 30 by including in the annual appropriations of certain departments authority to enter into commitments that will come in course of payment only in future years. Should these commitments come due for payment earlier than anticipated, there may not be sufficient funds in the vote to enable payment to be made. Similarly, in the case of annual

appropriations providing for claims under programs where the amount has been underestimated, there is no alternative but to withhold payment until a further parliamentary appropriation is available. Payments withheld in this manner are usually charged against the corresponding appropriation in the new year, which often results in that appropriation being insufficient to take care of all the accounts coming in course of payment for which it had originally been provided.

We reiterate our view that the present procedures whereby no appropriation is ever reported as having been overexpended, through the technique of withholding payment of amounts owing by the Crown until a further appropriation becomes available, are misleading and should be reviewed. Consideration should also be given to the procedures followed in presenting supplementary estimates to Parliament. Appropriation Act No. 1, 1970, *1969-70, c.24,* covering the 1969-70 final Supplementary Estimates, was assented to on March 25, 1970. A study might usefully be made of the reasons why much of the $27 million of accounts unpaid due to insufficient funds at March 31, 1970 was not provided for in these Supplementary Estimates.

52. *Capital assets charged to departmental operating accounts or financed by loan appropriations.* In previous Reports (paragraph 51 in 1969) we have noted that working capital advance accounts were being used to acquire capital assets, thereby removing expenditure on such assets from parliamentary control.

The situation remained the same throughout the year and to March 31, 1970 capital assets have been charged to departmental operating accounts as follows:

	1969–70	Cumulative to March 31, 1970
Canadian Government Printing Bureau Revolving Fund	$ 556,000	$ 2,431,000
Canadian Government Supply Service Revolving Fund	4,000	4,000
Computer Services Bureau Revolving Fund	14,000	234,000
National Film Board Operating Account	25,000	237,000
Passport Office Revolving Fund	187,000	187,000
	$ 786,000	$ 3,093,000

Treasury Board regulations covering the establishment and operation of revolving funds and working capital advances, which became effective on April 1, 1970, provide for the financing of capital assets either from the accumulated provision for replacement funds derived from annual charges to operations designed to amortize existing capital assets over their useful life, or from a separate repayable loan vote to be included in the Estimates.

These regulations are designed to restore parliamentary control over the expansion of capital facilities used in operations financed by means of revolving funds and limit the resources available for the purchase of replacement facilities to those accumulated by amortizing existing facilities. However, should replacement of any facilities not be required, replacement funds available with respect to them will be available for the acquisition of other assets which might be used for a new activity without reference to Parliament.

Further consideration should be given to the underlying accounting policy. Amounts totalling $13.8 million which were paid out during the past two years for capital assets have been recorded as loans on the Statement of Assets and Liabilities. Obviously loans are not normally made to oneself and loans by Canada to Canada cannot properly be included among the assets of Canada. If such amounts are to be included among the assets of Canada, they must surely be described properly as capital assets. If this is to be done a change is required in the policy enunciated on page 1.3 of Volume I of the 1969-70 Public Accounts which is quoted in paragraph 210 of this Report.

53. *Grants paid prior to parliamentary approval.* For the past three years (paragraph 48 in 1969) we have referred to the generally accepted principle that the prior sanction of Parliament is a requisite for the making of a grant-in-aid payment. Last year we reported that seven such grants totalling $131,440 had been paid without the prior approval of Parliament from Treasury Board Vote 5, Contingencies, and that Parliament was not informed of this when these items were later included in Supplementary Estimates tabled in the House of Commons.

Notwithstanding this matter being brought to attention, the Treasury Board continues to follow this practice. During the year the Treasury Board authorized ten such grants totalling $230,250 without the prior approval of Parliament. These grants were paid from Treasury Board Vote 5, Contingencies, and later included either in Supplementary Estimates (A) which were covered by Appropriation Act No. 4, 1969, *1969-70, c.2,* assented to on December 19, 1969, or Supplementary Estimates (B) which were covered by Appropriation Act No. 1, 1970, *1969-70, c.24,* assented to on March 25, 1970.

The following is a list of the 1969-70 grants which received *ex post facto* approval of Parliament:

Date of payment	Beneficiary and appropriation charged	Amount
April 25, 1969	University of Montreal (Solicitor General Vote 1b)	$ 5,000
May 20, 1969	Canadian National Organizing Committee of the XXIV Session of the International Geological Congress (Energy, Mines and Resources Vote 25a)	25,000
May 21, 1969	Canadian National Committee of the International Geographical Union (Energy, Mines and Resources Vote 50a)	10,000
May 30, 1969	Arctic Institute of North America (Transport Vote 50a—Canadian Transport Commission)	5,000
June 25, 1969	Régisseur dépenses assises Francophonie—Niamey Conference (External Affairs Vote 15a)	50,000
June 25, 1969	L'Agence de Coopération Culturelle et Technique (External Affairs Vote 15a)	25,000
July 23, 1969	Le Secrétariat de la Conférence des Ministres de l'Éducation Nationale des États Africains et Malagache d'Expression Française (External Affairs Vote 15a)	1,250
July 23, 1969	Le Conseil Africain et Malagache d'Enseignement Supérieur (External Affairs Vote 15a)	6,000
September 16, 1969	University of Alberta (Indian Affairs and Northern Development Vote 1a)	3,000
December 2, 1969	Maison des Étudiants Canadiens, Paris (External Affairs Vote 15a)	100,000

In the course of its consideration of the Supplementary Estimates (A) and (B), the House of Commons was not informed that these grants had already been paid.

Three additional grants totalling $1,667,000, made without the approval of Parliament from Regional Economic Expansion Vote 10, are referred to in paragraph 157 of this Report.

54. *Loans and advances representing grants.* Reference has been made in previous Reports (paragraphs 71 and 229 in 1969) to certain loans made to Crown corporations and others, the repayments of which are dependent on further appropriations of Parliament.

The practice of recording these expenditures as loans instead of grants has the effect of overstating the surplus for the year as recorded in the Public Accounts. To the extent that appropriations are provided in later years for repayment of the loans, the surplus will decrease or the deficit increase in those years. A similar practice affecting the expenditure of a department is referred to in paragraph 172 of this Report.

The following additional loans of this type were made during 1969-70:

Canadian Broadcasting Corporation	$ 24,700,000
National Capital Commission:	
Greenbelt	200,000
Other than Greenbelt	5,300,000
Government of the Yukon Territory	4,828,000
Government of the Northwest Territories	4,380,000
	$ 39,408,000

Had the above amounts been recorded as grants in accordance with the overall policy with respect to these matters as is outlined in paragraph 210 of this Report, the surplus for the year would have been $39,408,000 smaller. (See Appendix 1, items 7 and 22.)

Repayments during the year on loans of this type made in previous years were as follows:

Canadian Broadcasting Corporation	$ 5,065,000
National Capital Commission:	
Greenbelt	449,000
Other than Greenbelt	3,799,000
Northern Canada Power Commission	1,200,000
Government of the Northwest Territories	806,000
Government of the Yukon Territory	604,000
	$ 11,923,000

These repayments, with the exception of $450,000 derived from the sale of property by the National Capital Commission and $183,000 recovered from school boards in the Northwest Territories, were all provided for in 1969-70 appropriations of Parliament. Had the loans been recorded as grants when originally made, these appropriations to enable repayment of principal would not have been required and the surplus for 1969-70 would therefore have been $11,290,000 greater.

Certain of these loans call for payment of interest at varying rates and the following interest income was recorded during 1969-70 with respect to them:

Canadian Broadcasting Corporation	$ 6,068,000
National Capital Commission	3,449,000
Government of the Northwest Territories	978,000
Government of the Yukon Territory	727,000
	$ 11,222,000

Of this total, $10,207,000 was provided from 1969-70 appropriations of Parliament, but this provision had no effect on the recorded surplus for the year as it was offset by the recording of an equivalent amount of income. However, both the expenditure and revenue of the year are greater by this amount than would have been the case had the funds advanced in previous years been recorded as grants rather than loans requiring payment of interest.

Of the interest income received from the National Capital Commission, $1,015,000 was paid from property rentals, interest from bank deposits and other income.

The Public Accounts Committee holds the view that outlays on property in the Greenbelt are expenditures of the Crown rather than income-producing investments and on two occasions requested the Department of Finance to review the practice with the National Capital Commission, with a view to placing the financing of the Commission on a more realistic basis. In its Seventh Report 1966-67 the Public Accounts Committee stated that it was disturbed to learn that not only was no review undertaken by the Department of Finance in the case of the National Capital Commission, but that the practice was continued and further extended in 1964-65 when the House was asked to approve loans to the Canadian Broadcasting Corporation. The Committee reiterated its opinion that "expenditures of this type are not loans or advances which can or should be regarded as revenue-producing assets but are in fact grants and should be charged directly to budgetary expenditure in the Public Accounts of Canada".

In August 1969 the National Capital Commission received a directive from the Treasury Board with respect to loans for the purchase of property other than in the Greenbelt under which, starting with 1970-71, loans will be provided only to acquire, improve and service properties which are to be sold to other users, thereby enabling the Commission to repay the loans. The Commission is to provide in its future budgetary appropriations for the pay-back of loans which were used to purchase land which is not for resale.

55. *Inadequate charges for services provided.* Over the past few years attention has been drawn to instances where the fees charged by the Crown for services provided to segments of the public were insufficient to cover the cost of providing these services. Examples are given in paragraph 65 of last year's Report entitled "Deficit on inspection services" and in paragraph 134 of this Report entitled "Second class mail".

Government policy based on a recommendation of the Royal Commission on Government Organization is that

> it should be departmental policy wherever economically and administratively feasible to charge for all goods supplied or services rendered to the public, including those now supplied free, unless there are provisions for specific exemption.

Many of the charges for services provided to the public have been adjusted in accordance with this policy, including increased charges introduced during the year with respect to second class mail and steamship inspections. The Government had planned to introduce a number of additional increases and a number of new charges for such services for 1970-71 but on February 18, 1970 the Prime Minister advised the House of Commons that, because of inflationary pressures, it intended to forgo the introduction of new and increased fees such as certain postal rates and fees for the inspection of weighing devices, gas meters and electricity meters.

Services for which fees charged during the year were insufficient to cover costs included the following:

	Direct costs	Revenue	Deficit 1969-70	Deficit 1968-69
Second class mail (see paragraph 134 of this Report)	$ 42,400,000	$ 14,500,000	$ 27,900,000	$ 41,100,000
Steamship inspection fees	2,117,000	327,000	1,790,000	1,637,000
Weights and measures inspections	2,175,000	1,078,000	1,097,000	943,000
Inspections of grain	3,351,000	2,693,000	658,000	732,000
Electricity and gas meter inspections	1,756,000	1,120,000	636,000	526,000
Weighing of grain	1,911,000	1,324,000	587,000	1,154,000
Treatment of sick mariners	1,072,000	777,000	295,000	472,000
Cargo cranes—Vancouver Harbour (see paragraph 117 of this Report)	127,000	51,000	76,000	Not available
Supervision of pension plans	50,000	14,000	36,000	44,000

It should be emphasized that the costs shown are direct costs only and do not include any amount for overall departmental supervision or services provided without charge by other government departments.

56. *Employees' meal charges.* In paragraphs 86 and 193 of last year's Report, reference was made to unrealistic meal charges in National Parks of the Department of Indian Affairs and Northern Development and in hospitals of the Department of Veterans Affairs. At National Parks work camps, meals, which at some parks cost on the average $1.51, were provided to park employees at the rate of 65 cents per meal established in 1957, and at the hospitals of the Department of Veterans Affairs meals costing an average of $1.41 were provided to employees for 30 cents, 45 cents and 30 cents, for breakfast, the main meal and a light meal, respectively.

During the year the Department of Indian Affairs and Northern Development sought to increase the charge for meals in the National Parks work camps but was unable to

proceed with this because collective bargaining negotiations were in progress. As a consequence, the rate of 65 cents per meal established in 1957 remained in effect throughout the year.

Prices for meals in the hospitals of the Department of Veterans Affairs were increased on January 1, 1970 to 45 cents, 75 cents and 50 cents and on July 1, 1970 to 50 cents, 85 cents and 60 cents, for breakfast, the main meal and a light meal, respectively. There was a further increase of five cents per meal effective January 1, 1971 and we understand that there are to be regular annual reviews of hospital meal charges in future.

With the advent of collective bargaining the provision of meals below cost becomes a part of employee compensation and can only be effectively considered along with other employee costs in the course of the bargaining process, which is a responsibility of the Treasury Board. For this reason, we do not propose to comment in future Reports on such subsidization but we will continue to draw Parliament's attention to instances where the costs of providing meals to employees are not known and the Treasury Board is therefore not aware of the extent of the subsidization. An example of this is referred to in paragraph 142 of this Report, "Eating facilities for Crown employees in public buildings".

57. *Federal land and other assets occupied and used by the Province of Quebec in the Montreal-Longueuil area.* In our past three Reports (paragraph 150 in 1969) we have referred to financial and legal problems encountered by Canada in respect of various federal lands and other assets occupied by the Province of Quebec in the Montreal-Longueuil area. We reported the decision that any negotiations with the Province should be preceded by the preparation of a complete inventory of land used by Canada in the area and an assessment of future requirements.

The inventory has been substantially completed. A meeting was held with provincial officials in November 1969 to explore means of resolving the outstanding problems, and as a result the National Harbours Board and The St. Lawrence Seaway Authority, two of the federal agencies most directly concerned, were to carry on discussions at the provincial and municipal levels and then report to the Federal-Provincial Relations Secretariat of the Privy Council Office. The National Harbours Board submitted a report to the Privy Council Office on August 25, 1970 and The St. Lawrence Seaway Authority submitted its report on September 18, 1970.

The Department of National Defence is also directly concerned because the expropriation by the Province of a portion of the Craig Street armoury site held up a settlement between the Crown and the City of Montreal involving this site and the adjacent Champ de Mars property. The Department continues to negotiate with respect to these properties as the problems relating thereto were not assumed by the Federal-Provincial Relations Secretariat.

58. *Interdepartmental settlements.* This is another area where improvements could be made in procedures being followed which would effect economies, improve internal control and at the year-end achieve greater accuracy in the financial statements.

At one time there was a specific accounting instruction that settlements between government departments should be made by journal voucher and that cheques should not be issued. One reason for this direction was that the issuance of a cheque and its negotiation through the Bank of Canada, and in some cases other banks, is a costly process. In addition, cheques drawn on the Receiver General and payable to the Receiver General lend themselves to abuse, having been a factor in defalcations in past years.

The accounting instruction was never completely effective because of a general dislike of journal vouchers by the accounting staff, partly because many copies are required and partly because they often do not carry sufficient explanation to provide a quick understanding of the entry being made. Furthermore, as journal vouchers were filed separately from the ordinary expenditure vouchers, they were sometimes overlooked when expenditure figures were being compiled.

With the current emphasis on program budgeting, interdepartmental settlements have increased greatly in recent years. However, the journal voucher method of effecting these settlements is used even less than it was before.

The following case illustrates what can happen when cheques are used to settle interdepartmental accounts at the year-end. Toward the end of 1969-70 seven departments had claims totalling $1,020,000 against the Canadian International Development Agency which were chargeable to the International Assistance Account. Each department prepared a journal voucher for the amount of its claim and forwarded it to the Agency for acceptance of the charge. However, the Agency refused to make these settlements by journal voucher and returned them to the departments where they were cancelled. The Agency then drew cheques in payment of the accounts but, by this time, the year-end cut-off date of March 31 for the International Assistance Account had passed and the cheques were recorded as 1970-71 transactions. As the cut-off date for the recording of credits to the 1969-70 accounts was not reached until June 15, 1970, the departments recorded the cheques in their accounts for the 1969-70 year. The net effect of this was that the balance at the credit of the International Assistance Account as shown in the schedule to the Statement of Assets and Liabilities of Canada at March 31, 1970 included $1,020,000 which had been used to reduce the actual expenditure of the seven departments in 1969-70 and which, therefore, was also included in the item "Other current assets" on the Statement of Assets and Liabilities at March 31, 1970. While there is no suggestion of any improper intent in this instance, such bookkeeping violates accepted accounting principles and would not be tolerated in the private sector.

There seems little justification for having cheques issued by one department and deposited by another and, as the danger of manipulation of such cheques is always present, a special procedure for the settlement of interdepartmental accounts should be developed. The Treasury Board Secretariat was giving consideration to such a procedure in 1968 but no changes have been effected and Receiver General cheques are still being used for this purpose.

Consideration should be given to the use of a special non-negotiable document for effecting interdepartmental settlements.

59. *Revenue improperly classified.* On page 3.14 of Volume I of the Public Accounts, it is stated that revenue which is classified as "Return on investments" is income derived from loans and advances made by the Government and from investments by the Government in productive or earning assets.

Treasury Board regulations issued on January 8, 1970, covering the operation of revolving funds and working capital advances, state that:

> Any surplus arising from the operations of a fiscal year is to be transferred to "Return on investments".

In accordance with this direction, the surpluses in the following revolving funds at March 31, 1970 were transferred to revenue and classified as "Return on investments":

Passport Office Revolving Fund	$ 1,396,000
Canadian Government Supply Service Revolving Fund	1,062,000
Agriculture Revolving Fund	267,000

The surplus in the Passport Office Revolving Fund represents the excess of fees charged for passports over the operating costs of the Office and these passport fees have heretofore been classified as "Other non-tax revenue". The Passport Office Revolving Fund was set up in order to permit the expenses incurred in issuing passports to be paid from the fees charged rather than from parliamentary appropriations. However, this would not seem in any way to change the character of the revenue.

The Canadian Government Supply Service Revolving Fund showed a surplus only because operating costs estimated at $4,000,000 were not charged to it but were absorbed by appropriations. (See paragraph 284 of this Report.)

The Agriculture Revolving Fund actually operated at a loss of $348,000 but accumulated a cash surplus because certain costs of the Revolving Fund operation were charged to appropriations of the Department of Agriculture. (See paragraph 278 of this Report.)

In our opinion these surpluses should be classified as "Other non-tax revenue" and the Treasury Board regulations covering the operation of revolving funds and working capital advances which require these amounts to be transferred to "Return on investments" should be amended accordingly.

60. *Fees legally collectable deferred as anti-inflationary measure.* The regulations made pursuant to the Meat Inspection Act, *1955, c.36,* require the Department of Agriculture to provide free inspection services at meat packing plants for a maximum of eight and one-half hours per day or forty hours per week per shift. Where the services of an inspector are required for hours in excess of these or on designated holidays, a fee equivalent to the cost to the Department is charged. The cost of providing meat inspection services for the year ended March 31, 1970 amounted to $11,301,000 of which $1,159,000 was recovered from packers with respect to overtime work.

Prior to the introduction of collective bargaining in the Public Service, inspectors worked a forty-hour week and free services were provided on this basis. In October 1968

the work week of the Veterinary Science Group was reduced through union negotiations to thirty-seven and one-half hours and in July 1969 the Primary Products Inspection Group had their hours similarly reduced.

As the regulations required the Department to provide free services on the basis of a forty-hour week, the Department continued to absorb the cost of the two and one-half hours differential.

It was not until January 14, 1970 that the regulations were amended to provide for free inspection services on the basis of a thirty-seven and one-half hour work week. However, because of the Government policy on price restraint measures to control inflation, the Department continued to provide free services on a forty-hour week basis although it lacked authority to forgo this additional revenue.

The cost to the Department of providing free services for the additional two and one-half hours per week has been estimated at $400,000 for a full year, the amount applicable to the period January 14, 1970 to March 31, 1970 being about $100,000.

61. *Deficit of Canadian Dairy Commission financed by means of loans.* At the beginning of the year the Canadian Dairy Commission had a deficit of $14,965,000, all of which was financed with loan funds. This deficit increased to $25,386,000 at March 31, 1970 and continued to be financed from loans.

These loans are included in the current assets of Canada although the amount actually represents subsidies which must eventually be written off as expenditure. (See paragraph 222 of this Report.)

The result of carrying this deficit by means of interest-bearing loans and thus deferring its charge to an appropriation is that expenditure of the Agricultural Stabilization Board has been understated, revenue of the Department of Agriculture has been inflated by the amount of the interest on the loans, and the cost of the dairy price support program has been increased by the same amount.

62. *Study report received too late to be of use.* In July 1968 the Minister of Agriculture entered into a contract with a consultant representing a university research group for the development of a demand-supply model for Canadian agriculture that could be used by the federal Task Force on Agriculture and by other researchers and policy makers to test policy alternatives. Included in the consultant's proposal which formed part of the contract was the claim that the model would have immediate usefulness in allowing the Task Force to test various policy objectives and recommendations that they might suggest to Canada's agricultural policy makers and to utilize, at an early date, the output from the various commodity studies being performed by other consultants. Two interim reports were to be submitted and a final report was to be delivered to the Task Force on or before September 15, 1968. The consultant was to be paid $37,500 of which he received $23,900 in progress payments.

On January 15, 1969 the date of submission of the final report was extended to March 1, 1969 and on March 18, 1969 the consultant was notified by the Task Force that the contract was terminated on account of non-delivery of the final report.

On January 21, 1970, the Task Force informed the consultant that as a result of his delivering some copies of his final report on January 17, 1970, the members had reconsidered the status of his contract but had refused to accept the report because the Task Force had already submitted its report to the Minister of Agriculture. The copies of the consultant's report were returned to him and he was informed that a recommendation would be made to the Department of Agriculture that it commence legal proceedings against him for the recovery of the amount of $23,900, which had been advanced to him.

The Department of Agriculture still has the matter under consideration.

63. *Winding up of the Canadian Corporation for the 1967 World Exhibition.* The Expo Winding-up Act, *1969-70, c.1,* which was assented to on November 27, 1969, provided for the deletion from the accounts of Canada of that portion of the deficit of the Canadian Corporation for the 1967 World Exhibition, not exceeding $125,000,000, that is to be borne by Canada. Canada's share of the estimated final deficit of the Corporation was calculated to be $122,900,000 (see paragraph 56 of last year's Report) and this amount, which was included in the accounts of Canada as an asset, has been deleted and charged to expenditure in 1969-70.

The recorded deficit of the Corporation to the date of winding up on November 27, 1969 was $285,712,000, which has been allocated in accordance with the agreement of January 18, 1963 to Canada 50%, the Province of Quebec 37½% and the City of Montreal 12½%. After deducting their respective grants, totalling $40,000,000, and amounts paid in settlement of the deficit, the amounts due to and from each Government are as follows:

	Total	Canada	Province of Quebec	City of Montreal
Recorded deficit	$ 285,712,000	$ 142,856,000	$ 107,142,000	$ 35,714,000
Less:				
Grants	40,000,000	20,000,000	15,000,000	5,000,000
Inter-governmental settlements	240,000,000	122,900,000	91,950,000	25,150,000
Services rendered by the City of Montreal	5,550,000			5,550,000
	285,550,000	142,900,000	106,950,000	35,700,000
Net amount due to (by) the Corporation	$ 162,000	$ (44,000)	$ 192,000	$ 14,000

These amounts together with other recorded assets and liabilities of the Corporation have been transferred to the Minister of Industry, Trade and Commerce for collection and settlement in accordance with the Expo Winding-up Act. In addition, certain claims by contractors totalling $295,000 that are in dispute and which, in the opinion of legal counsel cannot be sustained, have been transferred to the Minister for settlement. Until these claims are settled it is not possible to determine the final deficit of the Corporation and, therefore, the final amount to be borne by each Government.

64. *Ex gratia payment to consultant.* In 1968 the Canadian Radio-Television Commission contracted for the service of a special consultant to the Chairman. Remuneration, originally set at $90 per diem and later changed to $1,950 per month, applied to normal working hours and designated paid holidays prescribed for public servants. The contract further stipulated that should the consultant be absent due to illness or other causes, the monthly fee would be reduced by an amount determined by the ratio of the number of days absent to the number of working days in the month.

The consultant was absent due to illness from February 16 to March 13, 1970 but, notwithstanding the terms of the contract, his monthly fee was not reduced accordingly. The reason stated was that he "must have done nine to ten full weekends of overtime work over the last two years and, in addition, many evenings". The consultant had in fact been paid $1,575 for working on 17½ Saturdays or Sundays between May 1968 and July 1969.

The Crown was not legally liable for payment of approximately $1,860 for the period during which the consultant was absent because of illness. Therefore, payment should only have been made on an *ex gratia* basis following approval by the Governor in Council.

65. *Failure to file statements.* Section 121F (now section 121E) of the Canada Corporations Act, *R.S., c.53,* requires certain companies to file a copy of their financial statements with the Minister of Consumer and Corporate Affairs. A filing fee of $10 is set by the tariff of fees.

In previous Reports (paragraph 66 in 1969) attention has been drawn to the fact that a number of public companies were in default in filing statements and that many of these had never filed a financial statement since incorporation, some as far back as 1917. At November 30, 1970, 472 companies were in default of which 118 had never filed a financial statement. The Act made no provision for penalties for failure to file financial statements and there appeared to be nothing that the Minister could do to enforce such filing. However an amendment to the Act (*1969-70, c.70*) which received Royal Assent on October 7, 1970 but has not yet been proclaimed, now provides, in section 121G, penalties for failure to file statements as required by the Act.

Section 125 of the Act requires every company to file with the Minister an annual return on or before the first day of June in every year giving certain information concerning the company and its directors. The annual filing fee is $10 if the return is filed on or before the first day of June, or $20 if filed after the first day of June. Section 125 also provides for a fine on summary conviction of $20 a day when a company is in default in the filing of the annual return.

If a company does not file an annual return for two consecutive years, there is a provision in section 125 for the Minister to give a year's notice that the company will be dissolved unless it files the returns as required. The number of companies currently in default is 2,632 compared with 1,779 at the same time a year ago. The names of 667 companies which have been in default for two years or more were published in the *Canada Gazette* within the past year because of failure to file. Of these, 229 filed the

returns upon publication of the notice and the remaining 438 are in the process of being dissolved. As in the past, no action was taken against any of the active companies for failure to file returns and the penalty provisions of section 125 of the Act remained inoperative.

We have discussed this situation with officers of the Department and are informed that action against defaulters has not been taken because of possible excessive costs, the possible adverse effect on public relations and the thought that the penalty of final dissolution of the company was sufficient to meet the situation.

66. *Indirect compensation to chartered banks.* Since 1962 (paragraph 72 in 1969) we have been directing attention to the fact that, although there is a prohibition in section 93 of the Bank Act, *1966-67, c.87,* against a bank making a charge for cashing a cheque or other instrument drawn on the Receiver General, the banks have been benefiting from banking arrangements whereby large interest-free balances are left on deposit. On three occasions the Public Accounts Committee has expressed the view that if banks were to be compensated for services provided to the Crown, consideration should be given to the most equitable manner in which this may be done, with statutory sanction being given by means of an appropriate amendment to the Bank Act. (See Appendix 1, item 8.)

In its Seventh Report 1966-67, which was presented to the House on October 26, 1966, the Public Accounts Committee requested explanations from the Department of Finance on three points associated with the practice. On October 15, 1969 the Minister of Finance wrote to the Chairman of the Public Accounts Committee outlining the views of the Department of Finance on these matters but the Committee has not yet given consideration to those views.

In the meantime, a Crown asset in the form of bank deposits amounting to $100 million remains at the disposal of the chartered banks of Canada free of charge, without the approval of Parliament. Bank deposits in excess of $100 million earned interest aggregating $51 million in 1969-70. The interest rate ranged from a low of 5.89% to a high of 7.05%.

67. *Duplicate payment of school fees.* The Department of Indian Affairs and Northern Development is required under the terms of a 1965 agreement with the Province of Manitoba to pay the tuition fees of Indian pupils attending provincial schools. The Province in turn pays the local school boards. The agreement provides that Canada, upon payment of these fees, shall not be liable for any other payments in respect of the education of Indian children.

Since 1967 a school board, which administers the schools attended by children from an Indian student residence, has been compensated by the Province from moneys received under the agreement with the Department. During the period 1967 to 1969 this board also received moneys totalling $18,000 from the municipality as its share of the annual grants in lieu of taxes from the Department of Finance.

The matter was brought to the attention of both Departments in 1968. After an exchange of letters the question remained undecided as to which should discontinue payment, and compensation from both Departments continued until 1969. The Municipal Grants Division of the Department of Finance has now agreed, with effect from the 1969 tax year, to stop including the school rate when calculating future grants. However, no recovery action has yet been taken.

68. *Fishing Vessel Insurance Plan.* Paragraph 75 of our 1969 Report outlined steps taken by the Department of Fisheries and Forestry in respect of the Fishermen's Indemnity Plan to make viable the element covered by the Fishing Vessel Indemnity Account and to discontinue the Fixed Fishing Gear and Shore Installations Indemnity Account. Vote L38b of Appropriation Act No. 1, 1970, *1969-70, c.24,* provided for a change in name from the Fishermen's Indemnity Plan to the Fishing Vessel Insurance Plan.

During 1969-70, operations in connection with the Fishing Vessel Insurance Plan resulted in a surplus of $156,000, as compared with a surplus of $37,000 in the preceding year. However, as of March 31, 1970 the accumulated surplus of $193,000 for the two years had been reduced to $182,000 by charging to the Plan the 1969-70 deficit of $11,000 in the Fixed Fishing Gear and Shore Installations Indemnity Account instead of providing for that deficit by means of a special Estimates item as had been the practice in previous years.

The Fixed Fishing Gear and Shore Installations Indemnity Account had been discontinued in October 1968 and the deficit of $11,000 was the total of claims paid in 1969-70 on policies expiring within that fiscal year. The accumulated deficit in the Account from its inception in 1966 to the expiry of the last policy in 1969 was $76,000.

69. *Inadequate accounting and financial control procedures, Indian agencies.* Reference has been made in our past three Reports (paragraph 81 in 1969) to the results of our examination of a number of the field offices maintained by the Department of Indian Affairs and Northern Development for the administration of its programs for the Indian population, and to the need for strengthening the financial control over the field activities.

Following consideration of the comments made in our 1968 Report, the Public Accounts Committee in its Second Report 1969-70, which was presented to the House of Commons on March 4, 1970, recommended "that the Department issue a directive to all its agencies, that all rules and regulations relative to expenditure of these funds must be complied with and if discrepancies continue, disciplinary action will be taken". The required directive was issued on October 6, 1970.

Examinations during 1969-70 at 12 of the 59 agencies and district offices resulted in criticisms of several matters. Included were inadequacies in: the internal control at nine locations; the cash handling practices at seven locations; the accounts receivable processes at eight locations; the welfare administration at seven locations; and the housing administration at six locations.

Subsequent to the year-end an examination was carried out in connection with the audited financial statements which must be submitted by bands managing their own revenue moneys under section 68 of the Indian Act, *R.S., c.149*. Ten audit reports for 1968-69 had not been received. Of the 133 reports received in respect of that year, 65 were qualified by the auditors, 83 did not include balance sheets, and 104 were not accompanied by completed departmental questionnaires.

Steps were taken by the Department both during and after the 1969-70 fiscal year to remedy the evident shortcomings. In addition to dealing with specific deficiencies, studies and reviews of problem areas were undertaken, some of which are continuing. Arrangements were made with the Audit Services Bureau of the Department of Supply and Services for the provision of an expanded service to the field offices to ensure that corrective action is taken with regard to its audit observations.

70. *Questionable entitlement to automobile depreciation allowance.* On April 1, 1969 the Indian student residences formerly operated by religious organizations on behalf of the Department of Indian Affairs and Northern Development were absorbed into the regular departmental administrative structure. The former operation, which was governed by regulations approved by the Treasury Board, was on a calendar year basis and provision was made for payment of a depreciation allowance of $500 per year where a regular passenger automobile was available for the use of the administrator of the residence. The automobile could be either church-owned or the personal property of the administrator.

The administrators were informed initially that the depreciation allowance for 1969 would be limited to $125, to cover only the first three months of the year during which operations were carried on by the religious organizations. Strong objections to the ruling were registered on the grounds that "automobiles depreciate by the year, not by the month, and that, as of January 1st of each year, a vehicle has, for trade-in or re-sale purposes, aged or depreciated one full year". Following reconsideration, the Department agreed to allow the full amount of $500.

There were 52 administrators who received the annual allowance of $500 for 1969, instead of the $125 applicable to the period involved. Furthermore, 38 of these officials were paid mileage allowance for travel between April 1 and December 31, 1969 at rates which included provision for depreciation.

71. *Inadequate accounting and financial control procedures, National Parks.* Paragraph 85 of our 1969 Report dealt with the results of examinations made last year at nine of the parks administered by the Department of Indian Affairs and Northern Development.

Visits to other parks during 1969-70 led to our informing the Department of inadequacies at four of the 18 existing establishments. The findings related in the main to cash handling and revenue processes and to stores and equipment procedures. At one park it was noted that contracts had been entered into with various persons for the performance of services which were similar to the duties of regular employees.

Service contract hirings have been curtailed and a directive has been issued clarifying the circumstances applicable to such contracts. Other measures adopted in 1969 and 1970 to improve the situation at the parks have been revision of revenue and cash handling procedures and the establishment of regional management audit teams whose responsibilities include ensuring that all policies, procedures and regulations are adhered to and that audit observations receive positive and continuing action.

72. *Weaknesses in control of a shared-cost development project.* In August 1967 the Department of Supply and Services entered into a contract to assist a company in the development of avionics products. The contract provided for the continued development of the company's existing product lines and for the development of new products to broaden its product range. The total estimated cost of the three-year project was $21 million, of which 50% was to be financed by appropriations of the Department of Industry, Trade and Commerce and 50% by the company. To further assist the company, which was experiencing working capital difficulties, the contract provided that the first $7 million of expenditure be shared 58% by the Crown and 42% by the company, the second $7 million be shared equally, and the third $7 million be shared 42% by the Crown and 58% by the company.

The company continued to experience working capital difficulties during the term of the contract and the contract was amended to provide for a successively higher overall share by the Crown of 59% in 1968 and 67% in 1969. At the end of the contract in March 1970, the total cost of the work carried out was $18.7 million of which the Crown had provided $12.4 million or 66%.

Our review of this contract has indicated several weaknesses in administration.

INADEQUATE REPORTING. A prime objective of the development project was diversification of the company's product lines. Within two months it became apparent to representatives of the Departments that substantial overexpenditures on elements of the project would require a reallocation of funds, which they feared might defeat this objective. Despite a steady worsening of the situation during 1967 and 1968, submissions made by the Departments to the Treasury Board in April 1968 and July 1968 for an increase in Crown sharing made no mention of this unsatisfactory situation. In fact, the submissions stated that the company was making good progress with the work. In its original submission to the Treasury Board, the Department undertook to report at intervals of not more than six months to interdepartmental committees on which the Treasury Board is represented. The minutes of these committees indicate that the problem was not brought to attention until April 1969—eighteen months after the problem was first recognized. It was only then that the Department set limits on shareable expenditures for each element of the project. When this action was taken it had some salutary effect but the objective of product diversification remains largely unaccomplished.

IMPROPER CHARGE TO 1967-68 EXPENDITURE. On April 26, 1968 the Treasury Board gave approval in principle to an increase in the Crown's share of contract costs effective January 1, 1968. On April 30, 1968 a cheque for $531,000, representing the retroactive increase for the three months ended March 31, 1968, was drawn and charged to 1967-68 expenditure. Treasury Board approval to amend the contract was not granted until July 24, 1968 and the cheque was released to the company on July 29, 1968 after the processing of the amendment was completed. As the amount of $531,000 was not payable to the company in 1967-68, it was not a proper charge to that fiscal year.

OVERPAYMENTS TO CONTRACTOR. Errors in progress claims submitted in September 1968 and October 1969 resulted in the company being overpaid $25,000 at March 31, 1970. The claims were not in accordance with the terms of the contract and a proper examination of them should have disclosed this.

CIRCUMVENTION OF DEPARTMENTAL DIRECTIVE. A clause of the contract provided for a further Crown contribution of 8% of certain costs incurred under a previous contract. The amount paid the company in accordance with this provision was $155,000, which resulted in the total Crown contribution to the work carried out under the terms of the previous contract being in excess of 50% of the costs incurred. A departmental directive provides that when a contractor makes a contribution of less than 50%, more stringent conditions shall apply. The effect of the contracting procedure has been to circumvent the provisions of this directive. Had the previous contract been amended to include the additional Crown contribution, then total Crown contributions of $3.7 million under the contract would have become subject to certain repayment conditions.

73. *Inadequate control over contracts resulting in failure to collect revenue due the Crown.* Under the Crown's program to provide Canadian defence industry with financial assistance for product development and for the establishment of Canadian sources of supply, the Department of Supply and Services on behalf of the Department of Industry, Trade and Commerce has entered into agreements providing for Crown contributions to approved projects. Although it is not required by the vote text, the agreements generally include a repayment provision whereby, in certain circumstances, the Crown may recoup its contribution from profits realized by the contractor on production resulting from the project assisted or, alternatively, the contractor may reinvest an equivalent amount in further development work. While the Department of Supply and Services is responsible for the administration of the agreements and for certain aspects of the repayment process, the responsibility for determining amounts due the Crown under the repayment provisions, and for the collection of these amounts, rests with the Department of Industry, Trade and Commerce.

From our review, we conclude that the procedures of the latter Department are not adequate to ensure that the Crown is, in fact, recouping amounts due from contractors.

The Department of Industry, Trade and Commerce periodically requests contractors to supply statements of follow-on production, sales and profits. However, the procedure is incomplete in that the request does not go to all contractors who have completed contracts containing repayment provisions or to any contractors holding incomplete contracts although there may be concurrent production. When requests have been sent, the Department has failed to follow up to ensure that replies were received. In one instance a reply in May 1966 indicated follow-on production from which profits had been realized but the Department has not attempted to verify and collect the amount due the Crown.

Assistance contracts provide that the Department of Supply and Services may direct that statements submitted by contractors are to be examined by the Audit Services Bureau and, where the contractor becomes the sole source of a product developed with Crown assistance, it may direct him to include in his sales price an amount which will enable the Crown to recover its contribution. The Departments advise us that these

clauses are intended to give the Department of Supply and Services the right to take action if requested to do so by the Department of Industry, Trade and Commerce. Because of the complementary roles of the two Departments, it is essential that their activities in the area of repayments be closely co-ordinated. Our review has indicated that no statement of general procedures required to effect such co-ordination has been issued.

During the year the Crown contributed $42.4 million toward product development and source establishment through projects which for the most part were not completed by the year-end. About 24% of the assistance was provided under terms whereby a share of the resultant profits would be reimbursed to the Crown or reinvested in further development work. Departmental records do not summarize the Crown's share of profits accruing from prior years' contributions but the individual files indicate that $267,000 has been reinvested in the past two years, all by one contractor, and that nothing has been paid to the Crown. One instance was noted where the failure of the Department to take prompt effective action resulted in the Crown not recovering $522,000 due from follow-on production achieved by a contractor. This case is commented on in paragraph 74 of this Report.

74. *Failure to collect moneys due the Crown.* In 1965 the Department of Supply and Services entered into an agreement with a contractor to share equally the cost of developing communications equipment and $522,000 was contributed from Industry Vote 5 for this purpose. In 1966 development was successfully completed and the contractor, having received initial production orders, anticipated substantial follow-on orders.

To overcome an acute shortage of working capital that jeopardized the contractor's ability to finance the anticipated orders, the Department of Supply and Services, with the approval of the Treasury Board, amended the development agreement in August 1967 in order to pay 100% of the costs incurred in 1965 and 1966. An additional $522,000 was then advanced to the contractor from Industry Vote 5, notwithstanding the fact that this Vote was to be used "to sustain technological capability in Canadian industry by supporting selected defence development programs...". The communications equipment was already in production and therefore past the development stage. This amount was repaid on a royalty basis from sales in the following year.

The development agreement provides that should the contractor become the sole source of equipment developed, and obtain follow-on production contracts, the contractor may be directed to repay the Crown's contribution from the proceeds of follow-on sales. In October 1968 the Department of Supply and Services invoked this provision and requested the contractor to repay $522,000 or alternatively propose a further development project in which it might be invested. The suggestion of this alternative was irregular because the contract did not provide for reinvestment of these moneys in a further development project and therefore the amount was payable to the Crown and should have been collected at the time. In May and October 1969 the contractor submitted proposals for other development projects but they were not approved by the Department.

When the Department requested repayment of the amount of $522,000 in April 1970, it was informed by the contractor that, as its cash resources had been loaned to its foreign parent company, no payment could be made and the Crown has therefore been unable to collect the amount due.

75. *The CL-84 aircraft development program.* In 1963, with the approval of the Treasury Board, the Department of Industry, Trade and Commerce entered into a contract for the design, development and manufacture of two prototype aircraft capable of vertical take-off and landing at a cost of $11.5 million, of which $7.9 million was to be borne by the Crown and $3.6 million by the contractor. The contract provided that one prototype would be used for ground and flight tests, while the second would be structurally completed and its systems and equipment procured but not installed.

The Treasury Board increased its authorization to $14 million in 1966 and at the same time authorized the Department to cancel the requirement to manufacture the second prototype aircraft. The first prototype, which was being used for ground and flight tests, crashed in September 1967 and was totally destroyed. In 1968 the Treasury Board further increased its authorization to $29 million and the Department of National Defence became a contributor to the program to the extent of $3,275,000.

The division of cost agreed to at the time of each authorization was as follows:

	Department of Industry, Trade and Commerce	Department of National Defence	Contractor	Total
1963	$ 7,900,000	$ —	$ 3,600,000	$ 11,500,000
1966	9,070,000	—	4,910,000	13,980,000
1968	19,895,000	3,275,000	5,910,000	29,080,000

The increase to $29 million authorized by the Treasury Board in 1968 included provision for procurement of three additional aircraft plus spares, support and evaluation at a ceiling cost to the Crown of $13.1 million, of which the Department of National Defence was to contribute up to $3.3 million with the Department of Industry, Trade and Commerce contributing the balance.

No provision is included in this authorized amount for direct costs of the Department of National Defence which are estimated to be in excess of $1.5 million for technical personnel, equipment and aircraft spares used in monitoring the test program. These costs have not been assembled and accordingly are not included in the recorded expenditure which amounted to $20 million at June 30, 1970, of which $17.5 million has been borne by the Department of Industry, Trade and Commerce and $2.5 million by the Department of National Defence.

The first of the three aircraft was delivered to the Department of National Defence in July 1969 and the second in October 1969. By this time the contractor had been paid 93% of the $8.3 million provided for in the $13.1 million program for the supply of the three aircraft exclusive of spares, support and evaluation. Both aircraft were accepted by the Department on the understanding that the contractor would subsequently rectify

numerous minor deficiencies at his own expense and then demonstrate that the aircraft satisfy the minimum performance requirements guaranteed in the contract. In June 1970, with the exception of the correction of a number of the minor deficiencies, these undertakings had not been carried out and the third aircraft remained undelivered. The contractor advised the Crown at that time that work would have to be stopped unless further Crown funds were forthcoming.

After a review of the program, the Departments concerned concluded that an additional $12 million would be required to complete the aircraft to military specifications. There appeared to be three alternatives open to the Departments: require the contractor to meet his commitments and refuse to pay overrun costs; provide the additional $12 million; or provide a smaller sum and complete the aircraft to commercial rather than military standards, in which event the Department of National Defence would withdraw from the program. The Interdepartmental Committee, Defence Export Development, decided in July 1970 to follow the third alternative.

This project is brought to attention not only because of the increase in expenditure and the tentative decision to release the contractor from his commitment, but because the House was advised on January 22, 1968 that:

> The aircraft will be used to conduct technical evaluation and operational trials to determine the potential and military applications of the vertical take-off and landing concept in support of land forces, in the maritime environment and for search and rescue.

With the withdrawal of the Department of National Defence from the program before its completion, that Department received little or no benefit from its expenditure of over $4 million to June 30, 1970. However, it is not possible to determine what portion of this expenditure was non-productive as far as the Crown is concerned.

76. *Excessive progress claims by a contractor.* In November 1969 the Department of Industry, Trade and Commerce undertook to provide up to $9.1 million towards the design and development of an aircraft guidance system estimated to cost $22.3 million. The contractor was to provide $250,000 with the balance of the cost, $13 million, being funded by the United States Government through the Canadian Commercial Corporation. During 1969-70 the contractor submitted claims for and was paid $6.1 million of which the Crown's share, $3 million, was charged to Industry, Trade and Commerce Vote 20.

In April 1970 the Department of Supply and Services, which administers the contract, questioned the level of progress payments in view of information obtained on a visit to the contractor's plant and it was determined that the contractor had been overpaid $3.9 million. The contractor had accomplished this by claiming estimated subcontract costs, and billings for which cheques had been drawn but not issued, both contrary to the certificate signed by him on the face of his claims for progress payments.

The Canadian Government's share of the overpayment was $1.8 million of which $400,000 was immediately recovered from the contractor's current claim and the balance of $1.4 million was refunded early in May.

Since substantial overpayments and subsequent recoveries were also disclosed in paragraph 111 of our 1969 Report, we believe that improvements are necessary in the procedures followed in the review and certification of claims for progress payments.

77. *Admiralty courts.* Our last four Reports (paragraph 88 in 1969) have contained criticisms of the administration of Admiralty courts, including such matters as failure to comply with rules and regulations established for the courts, inadequate accounting records and the lack of specific and detailed instructions for the registrars with respect to records to be maintained, type of bank account to be used and the disposition of interest earnings on funds deposited into court. In our last Report we noted that the rules of the Exchequer Court and the Exchequer Court in Admiralty had been changed to provide an administrator for the courts and to require that funds of the courts be deposited in the Consolidated Revenue Fund, rather than in individual bank accounts.

Examinations carried out in 1969-70 at the courts in Halifax, Saint John, Quebec, Toronto and Vancouver disclosed that weaknesses in administration of the type mentioned still existed. However, these examinations were made prior to the introduction of the new procedures for these courts, which only became effective in the registries of all courts in September 1970.

The functions of the Exchequer Court, with minor exceptions, and of the Exchequer Court in Admiralty are to be transferred to the Federal Court of Canada as a result of the enactment of the Federal Court Act, *1970-71, c.1,* which was assented to December 3, 1970 and comes into force on proclamation. The Act provides for a registry of the Court consisting of a principal office in Ottawa and such other offices as may be established. Future audit examinations will be of the registries of the Federal Court.

78. *Examination of Canada Manpower Centres and Regional Offices.* The Department of Manpower and Immigration has 338 Canada Manpower Centres and five Regional Offices across Canada to administer a national employment service and programs designed for the development and utilization of manpower, principally the Adult Occupational Training Program, the Manpower Mobility Program and the Vocational Rehabilitation of Disabled Persons Program.

During the year we examined 33 of these offices and drew to the attention of the Department any weaknesses in the control of transactions that we noted. Our observations related mainly to:

(1) weaknesses in the procedures for determining eligibility for occupational training allowances, for manpower mobility grants and for adjustment assistance to immigrants;

(2) payments of allowances, grants and assistance under circumstances which did not meet the conditions set out in departmental directives or the covering regulations;

(3) cases where there was misuse of a mobility grant;

(4) instances where persons on appointment to the Public Service of Canada were paid relocation grants under the Manpower Mobility Program when they should have been paid under the less generous removal expense regulations applicable to these employees; and

(5) inadequate accounting for, and collection action on, recoverable assistance and overpayments of allowances.

Amended procedures have now been issued correcting many of the weaknesses and the remaining matters are being studied.

79. *Inadequate liaison between the Department of Manpower and Immigration and the Unemployment Insurance Commission.* In our Report last year (paragraph 94) we stated that the number of disqualifications of persons claiming benefits under the Unemployment Insurance Act, *1955, c.50,* for refusing to accept suitable employment or for neglect of opportunity for work, had declined steadily over the past four years from 21,299 in 1964-65 to 2,024 in 1968-69 and that this decline represented a drain of some $3 million on the Unemployment Insurance Fund in 1968-69. Because disqualifications under these conditions can usually be imposed only on the basis of reports of job refusal submitted by manpower counsellors, this reduction in the number of disqualifications is a direct result of inadequate liaison between the unemployment insurance offices and the manpower centres, consequent on the transfer on April 1, 1965 of the administration of the national employment service from the Unemployment Insurance Commission to the Department of Manpower and Immigration. The following were among the matters noted:

(1) many instances of persons drawing unemployment insurance benefits who were not registered in manpower centres;

(2) numerous employment registrations took the form of alphabetically-filed name slips which could not be readily matched against job vacancies;

(3) regular contact was not maintained between manpower centres and registered claimants;

(4) the Commission offices were not notified when manpower centres were aware of or had arranged for placement; and

(5) information on restrictions imposed by claimants on desired wages, hours, locale or acceptable types of employment, which might ordinarily be the basis for disqualification, was no longer available to Commission interviewers and insurance officers.

Despite subsequent efforts by the Unemployment Insurance Commission to provide manpower centres with more complete information regarding claimants' occupations and employment histories, our assessment of liaison procedures in examinations at nine Commission offices this year disclosed little improvement. This is borne out by the continuing small number of disqualifications imposed for refusal or neglect of opportunity for work which numbered 2,171 during the year.

A problem associated with the liaison procedure has been the massive paper work that is required in attempting to register for employment every insurance claimant, and to properly process and review the registrations. Duplicate registrations have resulted because some insurance claimants have registered directly with the manpower centres and sometimes at locations other than those to which the Commission notification has been sent. Much of this effort is wasted because not all claimants require manpower services, such as persons who are temporarily laid off and those whose union or association looks after placement.

Recently, therefore, following studies by officials of both the Department and the Commission with a view to developing a more effective operational relationship, and after considering suggestions put forward by this Office, a revised procedure has been introduced. The aim of this procedure is to eliminate ineffectual paper work and duplicate registrations and at the same time provide more effective enforcement of the Unemployment Insurance Act. Under this new procedure registration with manpower centres will be on a selective basis, with the Commission determining, on the basis of criteria established by the two organizations, which claimants require manpower services. For these claimants registration for employment is made compulsory and failure to register will result in disqualification from receipt of benefits. All claimants would, of course, continue to be subject to periodic assessment of their entitlement to payment by the Commission's investigation-enforcement staff.

80. *Cost of the National Arts Centre, Ottawa.* In previous Reports (paragraph 96 in 1969) we have referred to the substantial increase from $18,223,000 to $46,426,000 in the estimated cost of construction of the National Arts Centre, and the exclusion of the Centre itself from the recorded assets of the National Arts Centre Corporation.

During the year a further $1,303,000 was expended bringing the accumulated outlay on the Centre to $45,082,000 at March 31, 1970. This amount was provided by annual appropriations of the Secretary of State. Although the Centre was officially opened in May 1969, a final certificate of completion has not yet been issued by the Department of Public Works.

The Centre itself is still not included among the assets of the Corporation and we are informed that the Department of Public Works is still negotiating to lease the Centre to the Corporation. Under the terms of the proposed lease, the Corporation is to assume full responsibility for both maintenance and operation of the building but will not be required to pay rent or to provide for interest and depreciation charges. If this policy is followed, the accounts and financial statements of the Corporation will not reflect the true cost of operating the National Arts Centre. (See paragraph 303 of this Report.)

81. *Sales of land.* The policy of the National Capital Commission is to sell surplus or industrial land at market value. Two exceptions noted during the year were:

1. Early in 1967 the Commission acquired for approximately $2,700 per acre a 21-acre parcel of land within the boundary of a developing suburban community, as part of a larger settlement with the former owner of certain farm lands in the Greenbelt. The local municipality, having made inadequate provision for school sites in the community, asked the Commission to make this land available so that in turn the municipality could exchange the land for appropriately-located lands of smaller aggregate area owned by the developer. The Commission represented that $3,500 per acre was the market value of the land when it obtained Governor in Council approval of the proposed sale in March 1969. Although the price may reflect normal two-year land value appreciation, it did not take into consideration the market worth of land available for housing development. In fact, at the time Executive approval for the negotiated sale was sought, the Commission had already decided to sell by public tender its remaining land holdings within the community. Bids were opened in May 1969 and resulted in the sale of all parcels offered, totalling 43 acres, at a price of $7,900 per acre.

2. In May 1967 the Commission was asked to sell 3.3 acres of industrial land at the then-established market price of $7,615 per acre and received a deposit of $2,000. Approval of the sale was received from the Governor in Council in June and shortly thereafter the agreement of sale was sent to the prospective purchaser for signature, with an anticipated closing date of October 3, 1967. There followed continual delays in closing the transaction which were not the fault of the Commission. These delays resulted from the need to obtain a further Order in Council covering the sale of an additional adjoining half-acre to overcome the purchaser's building plan problems and from the purchaser's difficulties in raising the required funds. As a result, the agreement was not completed until November 1968, with interest to be charged on the unpaid balance from September 1968. This agreement extended the closing date to April 1, 1969 but the Commission did not amend the selling price even though the new market value of the land, established in June 1967, was $8,250 per acre. As of April 1, 1969 the purchaser was in default of the terms of the amended agreement. An additional deposit required to make up the necessary 10% down payment was not received until April 22 and the final payment was not forthcoming until May 1. The Commission did not take steps to void the agreement at this stage even though in March 1969 a new market price of $9,500 per acre had been set for lands in the area. It was subsequently determined that the purchaser immediately re-sold the land at $10,000 per acre.

82. *Settlements for leasehold interests.* In addition to compensating owners of expropriated property, it is frequently necessary for the National Capital Commission to make settlements with tenants forced to vacate premises prior to the dates of termination of their leases. In last year's Report (paragraph 97) reference was made to four such settlements which appeared excessive in light of either evaluations by cost accountant-appraisers or the individual lease arrangements. Similar comments are applicable to the following three additional settlements:

1. Compensation of $45,200 to the tenant of a property expropriated on June 29, 1967 was in recognition of: the discounted value ($31,200) of an annual rental advantage of $8,229 for the period January 1, 1969 to June 30, 1973, being the difference between economic rent for the premises occupied ($20,095) and the actual rent enjoyed under two leases ($11,866) which, had they not been frustrated by expropriation, would have terminated on June 30, 1973; and the depreciated value ($14,000) of fixed improvements to the rented premises which the tenant had installed in 1963. In arriving at the lost rental advantage the Commission made no allowance for clauses which had provided for cancellation after January 1, 1968 by either party upon giving twelve months notice, but instead relied upon oral representations from the former owner that "it would have been a political and financial impropriety" to have acted upon these cancellation clauses. Also, the Commission made no allowance for the fact that, in part, the loss arose through unilateral action by the tenant. Although he had been assured of continued occupancy to April 30, 1971 at exactly the same rent under leases with the Commission, the tenant chose to vacate on March 8, 1969. The fixed improvements, for which the tenant was compensated $14,000, had been financed by a loan from the former owner, secured by a repayment clause in the lease which was terminated by expropriation. The unamortized balance of this loan at September 1, 1967 amounted to $13,220 yet the Commission did not reinstate the tenant's obligation to repay the loan when drawing up a new lease at that date. In effect, the tenant was allowed $14,000 for fixed improvements for which he had not been required to pay because of termination of his lease. Further, the improvements formed part of the premises for which the former owner had received a settlement of over $4 million in a prior year.

2. The proprietor of a barber shop in a building expropriated on June 29, 1967 was compensated in the amount of $6,500 for frustration of a lease which would have expired on October 31, 1971. The Commission required the property no earlier than October 31, 1969 and offered a lease to that date. The tenant refused but accepted a lease for another barber shop in a Commission building in the same block at comparable rent for the period April 1, 1969 to April 30, 1971. Compensation was based upon two appraisals obtained in October 1968 for $7,726 and $7,000 but both were qualified to the effect that should the tenant move within the same block the recommended settlements were to be materially reduced. Despite these qualifications the Commission notified the tenant on March 20, 1969 of its acceptance of his compensation claim even though, prior to that date, the new leasing arrangements were being concluded and the barber was publicly announcing his move to the new location.

3. Compensation to a restaurant operator in a building expropriated on June 29, 1967 was granted in the amount of $6,550 on the "realistic expectation of a lease renewal" which might have been granted by the former owner. The settlement comprised various estimated moving costs but must nevertheless be considered to have been purely gratuitous. The operator enjoyed a lease which would have expired on August 31, 1969 and was granted a new lease with the Commission from August 1, 1967 to April 30, 1969 which in November 1968 was extended to October 31, 1969. The tenant actually vacated on November 15, 1969.

83. *Expropriation settlement.* Included in property expropriated by the National Capital Commission for Greenbelt purposes in June 1961 was a newly-completed thirteen-unit motel. An advance payment of $69,300 was made to the former owner in January 1962 but the then-existing policy did not require the execution of a lease to cover continued occupancy of the property. The Commission was unsuccessful in attempts to obtain a lease when the policy was changed in 1963 and, not being able to obtain possession of the expropriated property, arranged for the Department of Justice to file an information in the Exchequer Court. This information sought a court judgment to allow compensation of $71,000 with an appropriate offset for free use and occupancy since expropriation. However, because the former owner's lawyer first wished to await a decision on the constitutional question of the Commission's right to expropriate in the Greenbelt – settled in 1966 – and because of subsequent pressure of work on both sides, the case was never brought before the Court.

In November 1968 a non-retroactive lease was arranged calling for monthly payments of $400 and shortly thereafter the Commission obtained Treasury Board approval for a settlement of $85,000 which in its view was "not far off" the following values given by three appraisers:

October 30, 1961	$ 88,400
June 4, 1962	79,476
February 4, 1963	71,500

In its submission to the Treasury Board the Commission failed to disclose the monetary advantage in excess of $25,000 which the former owner received from free occupancy for seven years. The total benefit received by the former owner was therefore substantially greater than the valuation placed on the property by the appraisers.

84. *Rent under lease agreement not collected in full.* Following advertisement in the local newspapers, the National Capital Commission granted a lease for the period October 15, 1967 to April 30, 1969 for a fully furnished hotel which had been expropriated in preparation for the eventual redevelopment of the area around Confederation Square, Ottawa. Under the lease the tenant was obligated to pay all taxes (approximately $10,000 per year) and monthly rent of $1,315 increasing to $2,000 as soon as he secured a licence for the sale of alcoholic beverages.

At the request of the lessee, the Commission granted a rental reduction of $615 per month in February 1968 retroactive to the effective date of the lease "in view of difficulties in obtaining a liquor licence and the resulting lack of business". The Commission made a further concession by drawing up building renovation plans to meet requirements of the licensing authority and authorizing the tenant to offset an amount of $28,000 paid for renovations against existing large arrears of rent and taxes. The Commission states that the extensive renovations will be economically justified in the long run but, although the liquor licence became effective in April 1969, the lease, which expired on April 30, 1969, was not formally extended and the tenant continues to enjoy a monthly rental charge of only $700.

By December 31, 1970 the anticipated rental income of $64,000 had been reduced to $27,000, of which only a small portion had actually been collected from the tenant. The status of his account with the Commission at that date was:

Rental from October 15, 1967 to December 31, 1970	$ 27,000	
Taxes recoverable from the tenant	35,200	
Parking lot rental	1,350	
		$ 63,550
Less:		
Allowance to cover renovation costs of $28,000—claimed to date	23,000	
Rent paid by tenant	4,600	
		27,600
Amount owing by tenant at December 31, 1970		$ 35,950

85. *Unused plans for construction of truck tunnel, Ottawa.* Early in 1968 the National Capital Commission was authorized by the Treasury Board to enter into a contract with a firm of consulting engineers to have plans and specifications drawn up for the construction of a truck tunnel and related roadways system to service the planned Department of Transport headquarters building as well as future buildings in the adjacent area on the east bank of the Rideau Canal. In 1969 complete documents were provided to the Department of Public Works so that tunnel work could be incorporated into an overall tender package for the construction of what is now to serve as headquarters for the Department of National Defence rather than the Department of Transport. However, after tenders were opened it was decided to forgo construction of the truck tunnel and accordingly the Commission negotiated a settlement to terminate its contract with the engineering firm. In all, expenditures totalling $165,000 have been incurred on the contract, of which $139,000 is identifiable as directly pertaining to the truck tunnel and therefore non-productive.

Included in the truck tunnel expenditure is $25,000 for translation of contract specifications into French, a cost which, under the Translation Bureau Act, *R.S., c.270,* should have been charged to the appropriation of the Bureau for Translations of the Department of Secretary of State. (See also paragraphs 109 and 124 of this Report.)

86. *Use of departmental vehicles.* In previous Reports (paragraph 99 in 1969) we have noted that the use of Department of National Defence vehicles for the purpose of dependants' recreation and shopping, contrary to Treasury Board policy, was permitted under departmental administrative orders dealing with the use of motor transport and that cars with chauffeurs were assigned to senior military officers for their use, including transportation between office and residence.

After reviewing a revised administrative order which the Department promulgated in October 1969, the Treasury Board Secretariat advised the Department that in some areas the wording of the order was open to more than one interpretation which could lead to misuse of government vehicles and reminded the Department that:

> it is established policy that Government-owned vehicles are to be used for official purposes only and that use for any non-official purpose is not authorized without the prior approval of the Treasury Board. Specifically, the use of Government-owned vehicles for unauthorized transportation of employees to and from work, for moving personal effects, for transportation related to staff picnics and other social functions, and for pleasure travel of any kind is not permitted, without prior Board approval.

Under a new order, promulgated with the approval of the Treasury Board Secretariat in September 1970, 58 staff cars, 38 of them chauffeur-driven, are provided for the exclusive use of 35 senior officers and 23 Canadian Forces attachés. The cars provided to the senior officers are for official use only, but no restriction is placed on the use of those provided to the attachés who in return pay some of the vehicle operating costs. In addition, motor transportation may be provided between residence and place of employment for personnel at 18 designated isolated locations, and for commanding officers at seven specified stations where this is an operational requirement. Motor transport may be used also to carry personnel and their dependants to shopping, entertainment and church services at 16 designated isolated locations.

The Treasury Board Secretariat when approving the revised order informed the Department that the changes appear to satisfy the points in question, but expressed some concern about provision of chauffeurs for staff cars allocated to individuals for their exclusive use, suggesting that in certain situations officials might drive themselves, effecting a significant cost saving.

87. *Pension awards effective at an early age.* In previous Reports (paragraph 100 in 1969) we have commented upon the number of servicemen being retired by the Department of National Defence with immediate annuities at an early age.

The Statute Law (Superannuation) Amendment Act, 1969, *1968-69, c.29,* came into force on April 1, 1969 giving effect to the Department's proposals respecting amendments

to the Canadian Forces Superannuation Act, *1959, c.21*. An immediate annuity cannot be paid to a contributor with less than ten years service in the regular forces and a contributor with longer service is now entitled to an annuity determined as follows:

Reason for retirement	Minimum years of service	Type of annuity
Age	10	Immediate annuity
Disability	10	Immediate annuity
Economy or efficiency	20	Immediate annuity
	10	With the consent of the Treasury Board, an immediate annuity reduced until age 65 by 5% for each full year up to 6 by which his service is less than 20 years or his age is less than the retirement age applicable for his rank, whichever is the lesser
Misconduct	10	With the consent of the Treasury Board, the whole or any part of any annuity specified by the Board to which he would have been entitled had he been retired to promote economy or efficiency
Other reasons—		
Officer	20	Immediate annuity reduced by 5% for each full year by which his age is less than the retirement age applicable for his rank
Man	25	Immediate annuity
	20	Immediate annuity reduced by 5% for each full year by which his service is less than 25 years or his age is less than the retirement age applicable for his rank, whichever is the lesser

During the year about 49% of the 460 servicemen aged 40 and under who were granted immediate annuities were released because of conditions rendering them mentally or physically unfit to perform their duties (disability) and a further 45% retired voluntarily after serving for more than 20 years.

In recent years there has been a pronounced reduction in the number of annuities granted to servicemen released to promote economy or efficiency and for misconduct. However, subsequent to the year-end, this trend appears to have been reversed.

88. *Unrealistic meal charges to Canadian Forces personnel.* In our 1969 Report (paragraph 101) we pointed out that the revised pay structure introduced for the Canadian Forces in October 1966 was formulated for the first time on the concept that remuneration should be based on skill and responsibility, as is the case in industry, and that the subsidies inherent in the older pay structure should be removed. Concurrent with the pay revision, the Department of National Defence had introduced monthly charges for daily rations which are provided in the main to members living in single quarters. Since June 1968 the monthly charges have been $56 for an officer and $46 for a man, except that while a man is serving on a ship or in the field or at other locations designated by

the Chief of Defence Staff the monthly rate is $36. We further noted that the Department calculates the average cost of unprepared rations but that the total of the costs of transportation, warehousing, preparation and serving of the meals and other related expenses is not compiled although it could represent a large part of the overall cost. Because examinations made at various messes had revealed that the cost of food and the salaries of the kitchen and dining room staffs alone exceeded the total amount charged the servicemen, we considered it essential that, as a prerequisite to the establishment of reasonable charges, the costs of providing the service be determined and a policy established to ensure that the cost is recovered to the fullest extent possible. Until this is done there is a continuing subsidy which is contrary to the principles underlying the new pay structure.

Examinations made this year confirmed our previous findings. The cost of food and salaries of the staffs engaged in preparing and serving meals at seven officers' messes with 617 members on ration strength averaged $97 per man-month, at four sergeants' messes with 167 members on strength averaged $116 per man-month and at five men's messes with 2,498 members on strength averaged $57 per man-month. The average cost at two messes having less than ten members on ration strength exceeded $400 per man-month.

The Department considers it inequitable to attempt to recover the total costs involved in transporting, preparing and serving rations when, for operational reasons, the provision of meals is necessary due to the locale of the operation. However, it recognizes that some of the messes are operating uneconomically and is presently attempting to formulate a policy for the provision of food services. The Chief of Personnel has recommended the closing of food service facilities where more economic alternative arrangements are available and a review is being made of all messes having less than 20 members with a view to identifying those which might be closed.

The Chief of Personnel has also proposed the adoption of a new system for determining charges for rations which would be based on the national average cost for rations plus a charge for preparation of $20 per month for officers and $10 for men. Based on the most recent cost figures as compiled by the Department, this would result in monthly ration charges of $61 for officers and $51 for men, an increase of $5 per month over current rates. These proposals are currently under consideration.

89. *Grants for recreational libraries.* By regulation approved by the Governor in Council, the Department of National Defence may pay grants to establish and maintain recreational libraries in ships and at commands and isolated units. The regulation provides that the annual maintenance grant is to be paid for the current fiscal year or fraction thereof as applicable.

Notwithstanding the limitation in the regulation, the Department, considering it unlikely that funds would be available for library maintenance in the immediate future years, paid out in the latter months of the year three times the authorized maintenance

grants for a full year with respect to 31 newly established libraries. These maintenance grants totalling $21,000 exceeded by more than $19,000 the amounts authorized by regulation.

90. *Prolonged development of the Canadian Forces pay system.* The Department of National Defence is responsible for calculating, recording and distributing pay to the members of the Canadian Forces. Prior to integration, three separate pay systems existed, one for each Service. Although each system was different, the same general controls were in effect. Pay records were maintained for each member at the local unit and additional records were maintained in Ottawa for control and audit purposes.

In its quest for a uniform pay system, the Department made a detailed examination in 1964 of the three pay systems and concluded that each system lacked some necessary characteristics which made its adoption by the other Services undesirable. In 1965, after further study, the Department proposed a new Central Computational Pay System that would meet the requirements of the three Services and in October 1965 the Treasury Board approved development of the new system and the acquisition of the necessary additional computer facilities.

The new system was to be introduced in two phases; in Phase I the records in Ottawa were to be replaced and in Phase II the records maintained at the local unit were to be eliminated. Phase I began on July 1, 1967 and Phase II was expected to begin on July 1, 1968. However, implementation of Phase II has been delayed due to serious difficulties encountered in Phase I operations caused in part by high turnover in computer programming staff, a high rate of error in input documents and the calculation of income tax deductions which presents problems peculiar to the processing of Service pay. We are informed that elimination of the special income tax provisions for members of the Canadian Forces would materially reduce the difficulties. (See paragraph 129 of this Report.)

In its request to the Treasury Board in October 1965 the Department stated that among other benefits it expected annual savings of $800,000 in administrative costs once the computerized pay system was fully operational. The development costs for the proposed system were estimated at $755,000.

The Department's accounts do not provide a record of the cost of development; however, the overall cost of the Central Computational Pay System amounted to about $7.1 million for the period July 1967 to July 1970. While the separate records maintained in Ottawa for control and audit purposes and for the accumulation of pension and income tax data have been discontinued and their cost of about $1.5 million saved in this period, the new system has not yet replaced these records effectively. Departmental statistics for August 1969 disclosed that 26% of the individual pay accounts in Ottawa showed amounts for net monthly pay entitlement that were different from the amounts shown in the accounts at the units. However, by October 1970 the differences had been reduced to 12%. The Department's investigation of the 14,000 differences in individual pay accounts which existed on July 1, 1970 disclosed that 21% were a direct result of Central Computational Pay System error. These differences show that the system is still in a

developmental posture and does not yet provide a control over the pay records maintained at the local units or produce accurate pay data. As the Department expects Phase II of the new system will not be fully implemented until late in 1971, it is apparent that the anticipated savings in administrative costs have not materialized in 1968, 1969 and 1970.

The prolonged development of the new pay system has therefore resulted in substantial escalation in development costs and, for the time being, in a weakening of internal control.

91. *Temporary extension of rehabilitation leave benefits.* Upon completion of their service careers, most members of the Canadian Forces are entitled under a Ministerial Regulation to rehabilitation leave, computed on the basis of thirty days for each completed five years of continuous service. Prior to April 1, 1969, Regulations and Orders for the Canadian Forces provided that an officer or man who requested to be released before completion of his normal period of service be granted rehabilitation leave only if the Minister of National Defence recommended that an immediate annuity be granted under the Canadian Forces Superannuation Act, *1959, c.21.*

An amendment to the Act with effect from April 1, 1969 (see paragraph 87 of this Report) removed the requirement that the Minister make a recommendation with respect to the granting of an annuity, and this had the effect of barring all members of the Service, who requested to be released prior to completion of the normal period of service, from being granted rehabilitation leave.

On the recommendation of the Chief of Defence Staff the Regulation relating to rehabilitation leave was amended on July 15, 1969 and this amendment resulted in all members of the Service who requested release becoming entitled to rehabilitation leave, the amount varying with the length of their service.

When the financial implications of this extension of benefits became apparent, the Regulation was further amended, with effect from September 3, 1969, to eliminate the benefits that had been provided to members who were not entitled to them under the Regulation in effect prior to April 1, 1969, for example members who had served less than ten years.

On the authority of the first amendment, the Department paid approximately $250,000 to 650 officers and men who were granted rehabilitation leave benefits during the period July 15 to September 2, 1969, although they had less than ten years service and would not have been granted rehabilitation leave under the Regulation in effect prior to April 1, 1969.

92. *Delay in remitting Canadian Forces income tax deductions.* The Department of National Defence remits income tax deducted from members of the Canadian Forces to the Department of National Revenue. The total deducted each month is remitted in two instalments; the first is a conservative estimate of the total while the second is the balance, determined some weeks later, which usually amounts to from $400,000 to $600,000.

The delay in determining the actual amount payable is attributable in part to difficulties with the Canadian Forces pay system which are referred to in paragraph 90 of this Report.

Included in the interdepartmental unpaid accounts of $3,844,000, referred to in paragraph 51 of this Report, is an amount of $2,186,000 payable by the Department of National Defence in respect of the difference between the actual and estimated tax deductions for the months of November 1969 to March 1970 inclusive which the Department indicates was not paid because of insufficient funds. While the balance payable in respect of March 1970, which has since been established as $399,000, was not known in time to make payment before the year-end, there is no reason other than shortage of funds why $1,787,000 should not have been paid before the accounts for the year were closed. Inasmuch as this amount represented deductions from the pay of members of the Forces, and therefore trust funds as far as the Department was concerned, sufficient funds should have been retained in the vote to permit settlement to be made in the year. Furthermore, the Department had $10.7 million in its Surplus Crown Assets Account which was available with the approval of the Treasury Board for any of the purposes of the Department.

93. *Subsidization of non-public fund activities.* In previous Reports (paragraph 102 in 1969) we have noted that such facilities as messes, recreational facilities and sales outlets, operated by the Department of National Defence for the benefit of Canadian Forces, are subsidized from public funds, and that the full extent of the subsidization could not be determined. We stated that it is essential as a prerequisite to the establishment of adequate management control that the actual costs borne by the Crown be determined and a policy established to govern the extent to which non-public fund activities may be subsidized. We also noted that guiding principles with respect to public support of these activities were approved by the Treasury Board in June 1969 and that the Board had requested the Department to develop and submit for its approval regulations to make the principles effective and to include therein criteria for the levels of the services and recreational facilities to be provided.

The Government recognizes that as a good employer the Department has an obligation to provide certain social, service and recreational facilities for its employees. This includes the provision of personnel, serviced accommodation, transportation and communications for the operation of non-public fund activities at Canadian Forces bases. The Department proposes that support be provided to messes and sales outlets in accordance with recommended scales varying with the number of personnel at the base and with its location (urban, non-urban or isolated) and that a portion of the non-public funds generated through their operation be used for the provision of certain recreational and other personnel support activities otherwise provided at public expense. Determination of the extent to which such facilities should be provided from public funds is to be the subject of a separate study in the near future, the results of which will also be submitted to the Treasury Board.

The Department also proposes that the value of the support from public funds at each base will be identified and a summary report of the resources used and their value

will be submitted to the Treasury Board annually. Changes in the annual cost of supporting from public funds the services to be provided following implementation of the new policies have been estimated by the Department as follows:

	Annual cost	
	Current	Proposed
Personnel	$ 9,290,000	$ 4,828,000
Accommodation	1,370,000	685,000
Transportation	Unknown	289,000
Communications	16,500	16,500
	$ 10,676,500	$ 5,818,500

The introduction of the proposed policy is therefore expected to result in a reduction of approximately $5 million or 47% in the annual cost of support from public funds. In view of this substantial reduction, the Department decided in September 1970 to proceed with the implementation of the policy over a three-year period, making it fully effective in April 1973.

94. *Charges for Crown-owned accommodation.* The Minister of National Defence has authority to enter into leave and licence agreements with civilian concessionaires for the operation of grocery stores, snack bars, barber shops, service stations, credit unions, etc., for the benefit and convenience of Service personnel at defence establishments. (See paragraph 95 of this Report.) The monthly charge for space, including normal amounts of light, heat and water, was established at 10 cents a square foot in 1960 and is payable in advance. This rate is less than that applicable to space in excess of authorized scales for non-public fund activities such as messes and sales outlets operated on a concession basis, which are referred to in paragraph 93 of this Report.

As the present rate is below the direct cost of routine building maintenance and services, the Department is reviewing the matter.

95. *Failure to charge established rates for facilities provided.* In December 1966 the Department of National Defence entered into a leave and licence agreement with a catering firm for the operation of a cafeteria at Canadian Forces Base Montreal, LaSalle Detachment, under which the caterer was provided 720 square feet of space at a monthly rental of $75 plus an additional charge of $108 monthly for extra utility costs.

Our examination at the Base in January 1969 disclosed that 2,430 square feet of space and departmental equipment which originally cost $22,000 were being used by the caterer. Based on departmental administrative orders, the monthly charge should have been $253 for space, $108 for extra utility costs and $220 for loaned equipment. If all these facilities were used by the caterer from January 1967 to March 1969, the undercharge would amount to $10,746.

The caterer's space, equipment and utility requirements were reduced in 1969 due to a reduction in activity at the Detachment. A new agreement was prepared at the Base

and signed by the caterer providing for a monthly rental of $139 effective April 1, 1969. Canadian Forces Headquarters refused to approve this agreement stating that the monthly rental should be $174, an amount the caterer was not prepared to pay. The caterer ceased operations in August 1969 and offered to pay rent for the preceding five months at $139, but this rental amounting to $695 has not been paid.

As is pointed out in paragraph 94, the monthly charges specified in the departmental administrative orders have not been revised since 1960.

96. *Special services provided by the Department of National Defence.* The Department of National Defence is frequently called on to provide a variety of special services. The National Defence Act, *R.S., c.184,* provides in sections 218 to 228 for the use of the Canadian Forces to aid civil powers in the event of a riot or disturbance, the cost incurred being the responsibility of the province that requests aid. In section 35 the Act provides that the Forces may be used in the event of disasters of national concern and that this use shall be deemed to be military duty, and therefore without charge. Although the Act does not deal specifically with other circumstances in which assistance is given to persons or organizations other than the Department, general authority is implied in the text of National Defence Vote 1 where the Department is authorized to make recoverable advances and to spend revenue received in respect of charges for supplies and services. Specific authority, under which the Department may authorize the provision of special services, is contained in the National Defence Provision of Services Regulations, Order in Council P.C. 1962-13/653 of May 2, 1962.

The Regulations Act, *R.S., c.235,* requires that every regulation shall be published in the *Canada Gazette* within thirty days after it is made. However, the National Defence Provision of Services Regulations have never been published.

These Regulations do not apply to services of a continuing nature costing in excess of $25,000 nor, except in an emergency, where the service in any one instance costs in excess of $5,000. They stipulate that a fee shall be charged in all cases unless the Minister is satisfied that the service provided is of a temporary and non-recurring nature and is:

(a) for the benefit of, or in support of, the Canadian Forces or national defence;

(b) for community purposes of a non-commercial nature; or

(c) to provide humanitarian assistance in individual cases in the nature of mercy aid in the relief of human distress or suffering.

In the audit sixteen cases were noted in which it is not clear what authority was relied on for providing services without fee or recovery of cost. In six of these cases the services were provided to departments of the Federal Government and in the other ten cases to individuals or outside organizations. Examples are:

1. Between April 1968 and June 1969 eight flights were made from bases in Canada to drop supplies on polar ice for the British Trans-Arctic Expedition.
2. A special flight was made in October 1968 to transfer a Canadian civilian patient from a hospital in Richmond, Virginia, to another in Montreal, Que., about five months after he had been hospitalized following serious injury.

3. Between October 11 and December 10, 1968, aircraft were provided for air-lifting Nigerian relief supplies from Canada to Lagos, Fernando Poo, Recife and Ascension Island on behalf of the Canadian International Development Agency at a cost of $191,000, of which aircraft operating costs of $113,000 were not billed to the Agency.

4. In 1967 departmental aircraft transported a World War II Hurricane fighter aircraft owned by a private individual from Winnipeg, Man., to the United Kingdom for use in the film "Battle of Britain". The Department later arranged for the return of the aircraft to Canada and it was flown at Ottawa in 1967 during the 50th Anniversary of Military Flying Celebrations held on Canadian Armed Forces Day. Later in 1967 departmental aircraft again transported this privately-owned plane to the United Kingdom for further use in the film, following which it was sold.

   In 1969, for the same person, departmental aircraft transported salvaged parts sufficient for the reconstruction of four World War II Japanese aircraft from New Guinea to Winnipeg, Man. In return the Department has been promised one of the aircraft which is to be offered to the National Museum of Science and Technology.

5. During the year special aircraft flights were provided for Ministers of the Crown. In some cases full cost was recovered, in others half of the cost was recovered, and in others no part of the cost was recovered. Unrecovered costs amounted to $37,000 for services provided to seven Ministers.

6. In February 1969 six flights were made to air-lift hospital equipment and medical supplies from Ottawa and Downsview, Ont., to Halifax, N.S., at the request of the Department of External Affairs. These supplies, gifts from the Government of Ontario to Biafra, proceeded from Halifax by ship.

The Department is required to report semi-annually to the Treasury Board every service provided pursuant to the Regulations where no charge is made and the cost exceeds $1,000. With the exception of one of the flights referred to in item 5, none of the sixteen cases has been reported. In our opinion, failure to recover the costs of providing these services has resulted in the Vote being applied to purposes not authorized by Parliament.

97. *Assistance to provinces by the Canadian Forces in civil emergencies.* In previous Reports (paragraph 108 in 1969) we have drawn attention to amounts recoverable from provinces representing the costs of providing assistance to the provinces chiefly by the Canadian Forces in civil emergencies. The accounts referred to were:

Newfoundland	1961	$ 410,000	
	1967	221,000	$ 631,000
Nova Scotia	1958	17,000	
	1960	60,000	77,000
Prince Edward Island	1960		43,000
British Columbia	1965		20,000

Such unpaid accounts were referred to by the Public Accounts Committee in its Sixth Report 1964-65 where it noted that when the Department had not been successful

in collecting the accounts they had been referred to the Executive for direction, but such direction had not been received. The Committee asked the Auditor General to inform it of the final outcome of these matters. (See Appendix 1, item 5.)

The Committee again referred to these unpaid accounts in its Fifth Report 1968-69 expressing the view that they should be settled in view of the agreements to pay, or some agreement should be reached for a sharing of the costs. The Committee suggested that the item be included on the agenda of a future federal-provincial conference for clarification. In December 1968 the Department of National Defence forwarded particulars of each account to the Federal-Provincial Relations Secretariat of the Privy Council Office, seeking its assistance in resolving the difficulties. There was nothing further to report when the Committee again considered this matter in April 1970 and there were expressions of concern that the accounts were still outstanding.

In April 1969 the Province of Saskatchewan requested the assistance of the Department of National Defence in combatting flooding at Lumsden, Sask. The Department responded and incurred charges of $45,000 which the Province has since been asked to pay. The Province has declined payment, stating that negotiations were underway between the Province and the Federal Government with respect to the sharing of the costs that were incurred during the flood.

In each of these cases, the costs remain a charge to appropriations which had not been provided by Parliament for these purposes. The assistance was provided to the Provinces under emergency conditions on the written undertaking of each Province to reimburse the Federal Government for any costs incurred by it.

98. *Inadequate control over Accountable Advances to aircraft repair and overhaul contractors for purchase of spare parts.* In previous Reports (paragraph 109 in 1969) we referred to the policy of the Department of National Defence of contracting with industrial concerns, through the Department of Supply and Services, for the major overhaul, modification, etc., of equipment, and to the practice of providing assistance to the contractors in financing the necessary spare parts inventories by means of Accountable Advances. We recommended that the specification included in contracts for the purchase and management of Accountable Advance spares should be revised, the ownership of such spares should be clarified, and the responsibilities of the Department of National Defence, the Department of Supply and Services and the contractor should be clearly defined.

In November 1969, following a joint study by the two Departments, the Department of National Defence promulgated a revised specification and accepted responsibility for maintaining surveillance over the contractors' inventory management methods, procedures and procurement. The revised specification is being incorporated into all new contracts for the acquisition of Accountable Advance spares, and into all continuing contracts following a joint review, contractor by contractor, of existing Accountable Advance inventories.

In May 1970 the Department of National Defence introduced a three-phase plan for the implementation of the revised specification:

I Indoctrination—the preparation and dissemination of documentation on the project;

II Identification—the evaluation of the Accountable Advance inventories to determine their location, make-up, value and relevance to current contracts; and

III Purification—the reduction of inventories to a realistic level related to current contracts.

Phase I has been completed and the work associated with Phases II and III, which involves some 50 different inventories held by 39 contractors, is now in progress. Shortly after beginning the work it had to be delayed temporarily in order to formulate special guidelines for dealing with an unexpectedly high volume of inventory items in excess of contract requirements, the mark-up payable on transferring Accountable Advance items to Service inventories, and the resistance by contractors to the imposition of the extra work involved in the identification of the inventories which they held.

Accountable Advance inventories to be reviewed have an estimated value of about $25 million. One-half of these inventories is expected to be surplus to the requirements of the individual contractors; however, some portion will be required for Service inventories. Material valued at $585,000 has already been identified as surplus to be disposed of through Crown Assets Disposal Corporation while other material valued at $825,000 has been transferred to Service inventories. The Department of National Defence anticipates that the review will be completed during 1971-72.

The revised specification promulgated in November 1969 includes the following clause:

> Initial provisioning and reprovisioning [using Crown funds] shall be the contractor's responsibility based on forecasts of repairs as given by [Department of National Defence] selection notices or program information sheets, estimates and actual consumption, manufacturers' recommended spares lists, suppliers' lead times and economic order quantities. Spares not procured in accordance with the conditions set out herein will be the contractor's responsibility for which he may be charged.

Although the former specification was silent on the contractor's responsibility for surplus spares, we have been informed that the Department of Supply and Services in its administration of this specification subscribed to the same general policy. However, we are not aware of any instance where a contractor was held responsible for surplus spares in the past and it is anticipated that the Crown will bear the full loss on disposal of spares identified as surplus to the overall requirement during the present purification program.

99. *Excessive advance payments under contract.* In our 1969 Report (paragraph 110) we noted instances where the Department of National Defence had made advance payments under contracts in amounts that could not be justified by accumulated costs, goods received or services rendered. It appeared that this had been done to circumvent the parliamentary control over appropriations provided for by section 35 of the Financial Administration Act.

The advances that totalled US $11.6 million at March 31, 1969 were reduced to US $3.9 million during the year by billings for accumulated costs or goods delivered, but one advance was increased by US $1.7 million as a result of a further payment in October 1969, bringing the total of the advances to US $5.6 million at March 31, 1970. These advance payments were not required by the relative contracts and did not meet the requirement of section 32(b) of the Financial Administration Act that, in order for a payment to be made before the completion of the work, delivery of the goods or rendering of the service, it must be provided for in the contract.

In dealing with the same problem the Public Accounts Committee in its Fifth Report 1968-69, presented to the House on June 26, 1969, expressed disapproval of the circumventing of the lapsing provisions of section 35 of the Financial Administration Act and recommended that the Treasury Board instruct departments not to contract themselves into obligations to make advance payments in order to avoid the lapsing of any portion of an appropriation. This recommendation has not yet been implemented. (See Appendix 1, item 34.)

100. *Disposal of surplus unused trucks.* During the period 1951 to 1955 the Department of National Defence purchased a fleet of over 6,000 - 2½ ton trucks. Approximately one-half of the fleet was put into use immediately to equip existing forces and the other half was placed in long-term outside storage as war reserves. Changes in defence policy, which have reduced war reserves and led to the closure of several bases, resulted in the Department's declaration early in 1970 that a number of these trucks were surplus.

A supply depot which is to be closed in the near future had, in outside storage, 415 unused trucks with van bodies suitable for use as mobile workshops or offices. These trucks, purchased in 1954 and 1955, had deteriorated particularly with respect to bodies, fuel and brake systems, tires and other rubber components.

The sale of the 415 trucks was conducted by Crown Assets Disposal Corporation which invited bids from 674 prospective purchasers who had previously indicated an interest in this type of vehicle; no public advertisement of the forthcoming sale was considered necessary. The original cost of the trucks was $4,180,000, or about $10,000 each. Bids were received from 42 of those invited and 122 trucks were sold to individual bidders in quantities of one to thirty and at unit prices ranging from $550 to $1,205, and the remaining 293 trucks were sold to the next highest bidder for $531 each. In total, $260,000 was realized on their disposal. The net cost of this war reserve of 415 trucks, including $81,000 for routine inspection carried out during the period of storage, was therefore about $4,000,000.

Although the greater part of the war reserve became surplus to requirements with the adoption of the "Forces in being" concept enunciated in the 1964 White Paper on Defence, the Department advises that disposal action was delayed primarily because of the time required to complete the technical assessment necessary to decide precisely how many trucks were actually surplus. A number of reorganizations of Canadian Forces Headquarters due to the integration and subsequent unification of the Forces contributed

to the delay. Of the original fleet, 1,292, including the 415 unused trucks, have been declared surplus since November 1969 and 2,705 are in use, while 1,559, some unused, are still in storage.

101. *Unrealistic rental charges on surplus property, Kingston, Ont.* In 1961 the Treasury Board informed the Department of National Defence that it was government policy that the Crown receive an economic rent for the use of government-owned land, and the Department was requested to take steps to introduce this policy at an early date. At that time there existed a leave and licence agreement between the Crown and the City of Kingston with respect to a property known as the Old Detention Barracks, consisting of a parcel of land of just under one acre which fronted on three streets in the downtown section of the City. This property had been declared surplus to the operational requirements of the Department of National Defence in 1955 and the City expressed an interest in acquiring the land for use as a municipal parking area. The Department then cancelled the surplus declaration and obtained authority to lease the land to the City. We have been unable to establish why the Department chose to lease the land.

Under the agreement the City was to pay $270 a year for the use and occupancy of the land and to demolish the old stone buildings at its own expense. Although the agreement was subject to termination by either party on thirty-days notice, it was continued until June 1970 at the same nominal rent which would now be appropriate for property valued at less than $5,000.

The property was appraised at $157,000 by the Veterans' Land Act Administration in 1967 and as the rental being received was obviously unrealistic the Department declared the property surplus in July of that year. However, the declaration was withdrawn in April 1968 following representations made on behalf of the City. The property was again declared surplus in October 1969 and in December 1969 Crown Assets Disposal Corporation obtained an appraisal from an independent appraiser showing a valuation of $96,000.

In June 1970 the property was purchased by the City for $100,000 under authority of a resolution of the City Council which stipulated, among other things, that a sum of $100,000 was to be paid to the City by the operators of an adjoining business "in lieu of a special assessment for the cost of the lot payable over a period of twenty years similar to assessments for other parking lots".

102. *Payment of overcharge for rental of helicopter.* In March 1969 the Department of Supply and Services contracted for the use of three helicopters for a three-month period at a cost of $125,000, for survey mapping under the direction of the Department of National Defence. The contract provided for payment based on minimum monthly charges of $12,330 for each of two aircraft and $10,680 for the third and for payment for the movement of the aircraft from and to their home base. The charter tariff, which forms part of the contract, provides that "no charges will be assessed against the charterer......where flights are not completed due to mechanical failure or crew

casualties and carrier fails to arrange satisfactory alternative transportation", and further provides for a *pro rata* reduction of the monthly minimum charge where the aircraft is unavailable or where the charter is cancelled.

The contractor billed the Department of National Defence and was paid a total of $121,000, despite a number of irregularities including duplicate billings for replacement aircraft, billings for periods when replacement aircraft were not available and for returning to its home base an aircraft which had crashed. These irregularities were not discovered by Department of National Defence personnel because the practice had been to accept the approval of such invoices by employees of the Department of Supply and Services as "approval to pay". In this case, however, the approval was intended to signify only that the invoice was in accordance with the terms of the contract and was not approval of the services provided.

Following our audit of this contract we expressed the opinion that the contractor had been overpaid a total of $19,000.

In November 1970 a solicitor of the Department of Supply and Services wrote to the contractor demanding payment, but in December 1970, following discussions with the contractor, the Department reversed its position and now considers the billings of $121,000 to be acceptable with the possible exception of a $2,000 charge for returning to its home base the aircraft which had crashed. While acknowledging duplication in the billings, the Department considers it appropriate that the following be taken into consideration in calculating the overcharge:

1. The contractor could have claimed $10,700 on a monthly charter basis for the services of a replacement aircraft in July, rather than the $3,700 which he had charged for providing service on an "as and when required" basis.
2. The contract provided that "Each aircraft must not be mechanically unserviceable more than an average of five days in any one calendar month". The Department concludes that the contractor could have claimed $6,200 for fifteen days mechanical unserviceability even though no aircraft was available either serviceable or unserviceable.
3. The contractor's billing should not be reduced by $2,900 for a seven-day period when the first replacement aircraft was unavailable because it was prevented from reaching the survey area by poor weather.
4. Notwithstanding the provision in the contract for *pro rata* reduction of the minimum monthly charge, the contractor was entitled to payment for a full three months for one of the aircraft which was on site for only three months less three days—a difference of $1,200.

103. *Inaccurate and incomplete refit specifications.* During the year two instances were noted in which costs for docking and refitting two Department of National Defence vessels increased significantly over original estimates due to errors or omissions in work specifications. It will be appreciated that while the rates for additional work are generally established through competitive tendering, the amount of time and material required for the additional work is not determined competitively but must be negotiated item by item.

Difficulties experienced in the past few years resulted in March 1970 in a memorandum of understanding between the Departments of Supply and Services and National Defence in respect of their responsibilities and duties in achieving time, cost and performance objectives in the carrying out of refits, repairs and emergency dockings of naval vessels. By applying the principles outlined in this memorandum, the Departments hope to avoid repetition of difficulties similar to those described hereunder:

1. INTRODUCTION OF FORESEEABLE WORK AFTER AWARD OF CONTRACT—H.M.C.S. ST. LAURENT. In November 1969 the Department of Supply and Services awarded a contract for the docking and refit of this vessel at a firm price of $272,000 for known work, with agreed firm rates for anticipated additional work which the Department estimated might cost $166,700. The quotation from the only other bidder was higher for the known work but because his firm rates for additional work were lower, the net additional cost if the contract were awarded to him was estimated at $4,000. Because of the marginal difference in the tenders the Department obtained assurances from the Department of National Defence that there would be very few extras on this work, and on this understanding awarded the contract to the lower bidder on November 14, 1969.

   One week later the Department of Supply and Services learned of additional work estimated to cost $118,000. It appears that at least $35,000 of this work could have been foreseen. The contract was completed in April 1970 at a final cost of $559,000, which was $11,000 more than it would have cost if the contract had been awarded to the unsuccessful tenderer.

2. ADDITIONAL COSTS RESULTING FROM INACCURATE SPECIFICATIONS. In December 1969 the Department of Supply and Services awarded a contract for the docking and repair of H.M.C.S. Provider. Based on specifications provided by the Department of National Defence, a firm price of $240,000 was established for known work and it was estimated that $110,000 would be required for work arisings. Work was completed February 17, 1970 at a final cost of $540,000 which compares to original estimates as follows:

	Final cost	Original estimate
Known work	$ 236,000	$ 240,000
Clean, paint hull	79,000	65,000
Other additional work	225,000	45,000
	$ 540,000	$ 350,000

   The "Other additional work" included $146,000 for cleaning and painting voids and bilges. The Department of National Defence specification of known work listed the spaces to be painted but underestimated their surface area by 50% and the area to be cleaned to bare metal by 645%.

104. *Hydrofoil development program.* In last year's Report (paragraph 113) we outlined the progress made in the development of an anti-submarine-warfare hydrofoil craft of some 200 tons capable of operating at high speeds in the open ocean.

The ship, commissioned as H.M.C.S. Bras d'Or in July 1968, underwent foil-borne trials during the summer of 1969. While we understand it performed satisfactorily, a segment of the main foil developed cracks and had to be replaced. In December 1969

the Treasury Board approved further expenditure of $2.2 million mainly for operation and maintenance, including the cost of the replacement of the main foil segment which the Department estimated at $450,000.

In approving the increase, which brought the anticipated cost of the program to $52.2 million, the Board indicated that no further increases would be authorized until it had considered the evaluation of sea trials and substantiation of the future role and effectiveness of the vessel. The Board also directed that in order to obtain more realistic costs for development projects, all operating and maintenance costs, as well as any contingency expenditures, be charged to all current and future development projects.

The expenditure of $48.5 million to September 1969 does not include any amount for the pay of the crew and other Service personnel and the costs of Service equipment utilized, departmental supervision directly associated with the work and materials supplied from stores. However, the subsequent expenditure of $1.6 million during the following twelve months, which brought the total expenditure to $50.1 million by September 1970, does include $155,000 for fuel, services and materials supplied by the Department of National Defence dockyard in Halifax as well as progress payments of $324,000 for foil replacement.

The committee which was established to determine the extent and cause of the cracks that developed in the foil during foil-borne trials concluded that sea water had entered the foil through certain plugs that had not been effectively sealed, resulting in a chemical reaction which caused the cracks. The Department is still considering the extent to which the contractor may be held liable for costs incurred in replacing the foil.

105. *DDH 280 destroyer procurement program.* In February 1965 the Treasury Board authorized the Department of National Defence to proceed with a program for the construction of four destroyers. The Department expected the contract for the first ship to be awarded late in 1966 and all ships to be delivered by July 1971 at a cost of $150 million. However, the contracts were not awarded to the two shipyards involved until April 1968, primarily because of a decision by the Government in July 1965 to initiate competitive tenders for shipbuilding contracts. This decision necessitated the preparation of detailed specifications by the Crown and detailed study and preparation of tenders by the shipyards. By the time the contracts were awarded the Department had revised its cost estimate to $205 million, with further increases expected.

In 1969 an estimate of $221 million was approved and by March 31, 1970, $101 million of this had been expended.

In December 1970 the Treasury Board authorized the Department to commit up to $252 million, an increase of $102 million over the original estimate, which includes a substantial increase in the cost of the main propulsion system due primarily to a decision to use gas rather than steam turbines. The new system is expected to permit greater speed with the increased capital cost being offset in part by savings resulting from a reduction in the engine-room crew.

Other increases in cost are attributed to the complexity of new armament, control and propulsion systems; delays in their final design which affected working drawings for the ships; and misunderstanding of the contractual responsibility for design of the ships and the production of working drawings which has resulted in claims in excess of $10 million for delays in construction in both shipyards. The first ship is now scheduled for delivery in July 1972 and the last in September 1973.

The Department has advised the Treasury Board that the estimated costs do not include $10.3 million for working drawings, $8 million for the development of a missile system intended primarily for these ships, $7.2 million for lifetime spares, $6 million for ammunition, and $5 million for other items including the first outfit of equipment, furniture and supplies. These additional costs total $36.5 million, increasing the overall estimated cost to $289 million. This estimate does not include the cost of at least two helicopters for each ship which would amount to approximately $17 million.

106. *Cost of the CF5 aircraft procurement program.* In August 1965 the Treasury Board approved the procurement of Canadian-built CF5 tactical support aircraft. An estimate of $215 million as the overall cost of 115 CF5 aircraft comprised $30 million for reconfiguration of the original F5 aircraft, $94 million for the production of the aircraft, $34 million for production of the jet engines, $38 million for other costs associated with production including components incorporated into the aircraft, and $19 million for spares. The $94 million for production is the ceiling price of a target incentive contract. However, the aircraft producer has requested an additional $25 million to offset cost increases for which he considers the Crown is responsible. Thus if the Crown accepts responsibility for all or part of these cost increases, the 115 CF5 aircraft could cost up to $240 million. The procurement of this aircraft was discussed in the House of Commons Standing Committee on External Affairs and National Defence on May 1, 1969.

Deliveries to Canadian Forces units commenced in November 1968 and at March 31, 1970, when 47 aircraft had been delivered and the remaining 68 were in various stages of production, expenditure amounted to $202 million. To December 31, 1970, 96 aircraft had been delivered. Of these, 35 were placed in storage and we are informed that no specific role has yet been assigned to them.

The Canadian Commercial Corporation has entered into a contract with the Netherlands on a ceiling price basis for the supply of 105 modified F5 aircraft which are being produced at the same time as the CF5 aircraft. A footnote to the Corporation's balance sheet at March 31, 1970 draws attention to certain risks inherent in this contract that will likely result in a loss to the Corporation. (See paragraph 250 of this Report.)

107. *Costs related to reducing contract quantities.* Early in 1965 the Department of Supply and Services issued a contract at an estimated cost of $2.9 million for the supply of 420 pylon tanks and 500 tip tanks required as spares for Department of National Defence aircraft.

In July 1966, after discussion of the damage factor and the sortie rate over a period of about thirty months and in view of planned reduction in the number of aircraft de-

ployed, the Department concluded it required only 265 pylon tanks and 226 tip tanks. However, following a recommendation of the Department of Supply and Services, the Department agreed to accept 174 tip tanks over and above the 226 required in order to take the best advantage of the contractor's progress to date.

The Department paid the contractor $1,480,000 for the tanks known to be required, $554,000 for the additional 174 tip tanks and $403,000 for his termination costs, the claim being settled in July 1969. As the Department recovered $10,000 from the contractor's surplus material, the non-productive costs associated with reduction of requirements are, therefore, the net termination costs of $393,000 plus the cost of whatever tanks are not eventually used.

108. *Additional cost due to delay in manufacture of Service overcoats.* In March 1969 the Department of Supply and Services awarded a contract for the manufacture of 100,000 overcoats from free-issue cloth at a cost of $1,740,000. The contract called for delivery of 700 finished overcoats within 60 days of approval of preproduction samples and 1,600 every two weeks thereafter. It was anticipated by the Department of National Defence that 18,000 overcoats would be delivered by December 31, 1969.

The manufacturer experienced some difficulty in the early stages of the contract and production fell short of the target to the extent that at the end of September 1969 only 550 overcoats had been delivered and it appeared that the number of overcoats delivered by the year-end might not exceed 4,000.

The Department of National Defence anticipated a requirement for 10,000 overcoats by January 1, 1970 for servicemen who by then would have received the new uniform ensemble. Because of the late deliveries of overcoats, a contract was negotiated with another contractor in the autumn of 1969 for the manufacture of 15,000 overcoats from free-issue cloth at a cost of $451,000, which exceeded by $188,000 the price being paid under the contract initially entered into for the manufacture of overcoats.

We understand that although the major part of the delay in production was the fault of the first contractor, no part of the additional cost of $188,000 can be recovered from him as the contract does not provide a penalty for failure to meet contractual delivery terms.

109. *Unused plans and specifications, Valcartier, Que.* Non-productive expenditures totalling $86,000 were disclosed in a review of consultants' contracts for projects at Canadian Forces Base Valcartier which were deferred or cancelled.

1. In February 1970, Defence Construction (1951) Limited entered into a contract in the amount of $175,000 for the preparation of drawings, specifications and cost estimates for a 60-bed hospital at Canadian Forces Base Valcartier.

   A previous contract for design of this hospital, entered into in September 1966 at an authorized amount of $120,000, was terminated in March 1968 because the Department of National Defence was not satisfied with the preliminary design. Cost to the Crown was $44,000. The current contract provides a $10,000 reduction for preliminary design provided to the architect, leaving $34,000 of the expenditure under the previous contract as non-productive.

2. Defence Construction (1951) Limited awarded a contract in June 1966 for the preparation of plans and specifications for a 1,000-man mess at Canadian Forces Base Valcartier. The consultant completed this work at a cost of $52,000.

   In May 1968 the Company informed the consultant that the Department had deferred construction of this facility indefinitely. As the contract was formally terminated and the project was deleted from the list of approved projects of the Department of National Defence in 1969, the expenditure of $52,000 is non-productive. Included in the $52,000 paid to the consultant is $13,000 for the French translation of the plans and specifications, a cost that should have been charged to the appropriation of the Bureau for Translations of the Department of Secretary of State. The Bureau has responsibility for providing translation services to all departments of the Public Service under section 3 of the Translation Bureau Act, *R.S., c. 270.* (See also paragraphs 85 and 124 of this Report.)

110. *Non-productive expenditure due to faulty roofing specifications.* In May 1968 Defence Construction (1951) Limited awarded a contract for the reroofing of the large supply depot at Canadian Forces Base Edmonton (Namao), an area of 800,000 square feet, at a cost of $1,176,000. The specifications required the use of an insulation material that had never before been used by the Department of National Defence nor had it been used in Canada on a project of this magnitude. In recognition of this fact the contract provided for the completion of a 6,400 square foot area to confirm the design and ensure satisfactory application.

In July 1968, shortly after beginning the work, the contractor experienced difficulty in both the mixing and application of the insulation and despite the assistance of his supplier a satisfactory application of the material could not be achieved. However, the work was not stopped until September 1968 by which time 49,600 square feet had been partially reroofed.

The Department of National Defence revised its specifications and reverted to a less expensive but proven system for the remainder of the roof. The Company negotiated a price of $1,069,000 to complete the job to the revised specifications and allowed the contractor his costs of $171,000 for the work already done on the 49,600 square foot section of roof. Subsequently the contractor was paid an additional $21,000, bringing the total cost of reroofing this section to $192,000, which is $119,000 more than the *pro rata* amount of the original contract price for this area. The contract was completed in September 1969 at a cost of $1,261,000; however, the contractor has refused to provide a warranty on the 49,600 square foot section.

Specification of an unknown product without first having evaluated its performance has therefore resulted in non-productive expenditure of $119,000 and acceptance of a roofing job not fully covered under warranty.

111. *Unused plans and specifications, Halifax, N.S.* In August 1966, Defence Construction (1951) Limited engaged a consulting firm at an estimated fee of $224,000 to prepare the plans and specifications for a new hospital for the Department of National Defence in Halifax.

In February 1968, after preliminary design work had been completed, the consultant was advised that the Department had deferred its decision to proceed to final design. The contract was terminated in December 1969 at a cost of $74,000 following Treasury Board approval of a recommendation by the Department of National Health and Welfare for construction of a multipurpose hospital in Halifax which would serve the needs of the Department of National Defence.

Since the plans acquired by the Department of National Defence will not be used, the expenditure was non-productive.

112. *Damages resulting from a sonic boom, Kelowna, B.C.* With the approval of the Department of National Defence, the Kelowna Regatta Association invited the U.S. Navy "Blue Angels" aerobatic team to participate in the Kelowna International Regatta in August 1969. On August 6, while practising for the air show on the following day, one of the aircraft belonging to the team accidentally broke the sound barrier. The associated shock wave caused extensive property damage and some personal injuries in the City of Kelowna. A total of 314 claims aggregating $114,000 have been settled by the Department of National Defence on an *ex gratia* basis and it is estimated that settlement of additional claims may cost up to $6,000.

The "Agreement between the Parties to the North Atlantic Treaty regarding the Status of their Forces" contains provisions for settlement of claims arising out of acts or omissions of members of a force or civilian component done in the performance of official duty or any other act causing damage to third parties in the territory of a member state. Ever since the Agreement came into force, Canada has billed the United States for 75% of sonic-boom claims arising out of flights over Canada by United States aircraft. This long-standing practice will also be followed in connection with the Kelowna claims. The portion of these claims chargeable to Canada may therefore amount to $30,000. In addition, Canada has borne the full cost of adjusters' fees totalling in excess of $26,000 for the claims settled.

113. *Inadequate documentation and follow-up.* In our reports to the management of the National Harbours Board for a number of years and in paragraph 122 of our 1969 Report to the House of Commons, we have drawn attention to instances of the Board's failure to require the completion of the necessary legal formalities before permitting its assets to be used by others. Such failures sometimes result in non-collection of revenue from customers or in litigation. Examples are:

1. THE ABSENCE OF A WRITTEN AGREEMENT FOR THE EASEMENT FOR A NATURAL GAS PIPELINE OVER THE JACQUES CARTIER BRIDGE, MONTREAL, QUE. In 1959 the Quebec Natural Gas Corporation (now Gaz Métropolitain Inc.) was granted an easement for a 20-inch natural gas pipeline over the Jacques Cartier Bridge before a rental rate had been agreed to. The parties had been unable to reach agreement on the rent to be paid and litigation commenced. During the year the dispute was resolved in accordance with an agreement between the Board and the gas company and the litigation was withdrawn. Under this agreement the gas company's indebtedness, then established by the Board at $606,000, was reduced by an amount of $211,000. However, the adjusted amount of $395,000 has not yet been paid.

2. THE ABSENCE OF A LEASE WITH AN OIL COMPANY FOR THE RENTAL OF SPACE, ST. JOHN'S HARBOUR, NFLD. The Board permitted an oil company to occupy a pier in St. John's Harbour from August 1965 to August 1967 when the premises were vacated. No lease was executed and a dispute arose between the parties as to the rent to be paid. The Board's records show rentals receivable from the company in the amount of $47,000, while the company considers that a fair rental has been paid and denies any further liability to the Board. Although the oil company's solicitors were advised by the Department of Justice on November 28, 1969 that "unless your clients are now prepared to alter their position consideration will be given to the commencement of proceedings to decide the matter", proceedings have not yet been commenced against the company.

3. THE ABSENCE OF A WRITTEN JOINT VENTURE AGREEMENT FOR THE OPERATION OF GRAIN ELEVATORS, SAINT JOHN, N.B. A joint venture with a subsidiary of a railway company for the operation of the grain elevators at Saint John has existed since January 1, 1967. The Board's share of profits for the three years ended December 31, 1969 as computed by the other partner in the venture amounted to $114,000, but of this amount only $58,000 has been remitted to the Board. A written agreement, described as an agency agreement, was finally executed on May 15, 1970. This agreement does not call for audited financial statements but does permit the Board to examine the other party's records relating to the operation of the elevators. The Board has made no such examination.

4. THE ABSENCE OF A CONTRACT FOR THE SALE OF NO. 3 ELEVATOR, VANCOUVER, B.C. The documentation for the sale of this elevator on August 1, 1965 has still not been completed. A dispute involving $60,000 has arisen with the purchaser.

5. THE ABSENCE OF A CONTRACT FOR THE SALE OF NO. 1 ELEVATOR, VANCOUVER, B.C. The documentation for the sale of this elevator on December 15, 1967 has still not been completed.

6. THE ABSENCE OF LEASES WITH PRIVATE OPERATORS FOR THE OPERATION OF CERTAIN PIER FACILITIES, VANCOUVER, B.C. The leases with the operators of Ballantyne, Centennial and Lapointe Piers, Vancouver Harbour, have not been executed. Rent at a minimum rate is being collected from one operator but other operators are withholding amounts totalling $118,000 until the leases are signed.

7. LAXITY IN FINALIZATION OF LEASES AND REVISION OF RENTAL RATES. Ten tenants have occupied Board property at Montreal Harbour for periods of up to fifteen years without leases. In addition the rates under four leases for Montreal Harbour property, which include provision for the revision of rental rates at the end of each five-year period, have not been revised since January 1960, May 1960, January 1964 and January 1964 respectively.

   Three tenants have occupied property at Quebec Harbour for periods of up to thirteen years without leases.

   At Vancouver Harbour the rentals under six leases, which permitted continued occupancy on a month-to-month or year-to-year basis after the original expiry date of the lease, have not been increased for many years even though adjacent Board properties are commanding higher rates.

114. *Dispute with the City of Quebec over water charges.* Prior to May 1, 1948 the National Harbours Board had been paying approximately $10,000 per annum to the City of Quebec for water pursuant to various informal agreements. Early in 1948, how-

ever, the City passed a by-law which imposed a "water charge" calculated not in relation to the volume or value of water supplied but simply as 1% of the value (as computed by the City) of the relative Crown property concerned. The result was an annual "water charge" of $117,000 which later increased to $128,000 due to increases in assessments. The Board rejected the validity of this by-law and offered to negotiate with a view to arriving at a reasonable settlement. An amount of $437,000 has been provided for water service in the accounts of the Board to December 31, 1969 but no part of this has been paid. Although the City has filed Statements of Claim with the Exchequer Court of Canada in 1953, 1958 and 1963, the case has been left in abeyance.

The Departments of National Defence, Public Works and Transport were also in dispute with the City of Quebec over water charges but each of these Departments, with separate approval of the Treasury Board, settled its differences with the City in 1965, agreeing to pay 25 cents per 1,000 gallons for water service and 35 cents per 1,000 gallons of water consumption, for sewerage service.

115. *Dispute between the National Harbours Board and the Department of Public Works.* The Department of Public Works has, since September 1958, leased property known as the Champlain Harbour Station, Quebec City, from the National Harbours Board. Under its lease the Department paid the Board for water consumed from that date to August 1964. These payments were being made by the Quebec District Office of the Department and that Office, becoming aware of the dispute existing between several departments of the Federal Government and the City of Quebec concerning charges for water, discontinued making the payments to the National Harbours Board.

The head office of the Department of Public Works negotiated a settlement with respect to water charges by the City of Quebec for the period May 1953 to April 1964. Included in the settlement was the Champlain Harbour Station property which was being administered by the Department of Public Works although it was actually owned by the National Harbours Board. This settlement meant that for the years 1958 to 1964 the Department had paid both the City of Quebec and the Board for water provided to this Station. Accordingly, it requested the Board to refund to the Department an amount of $25,000. The Board has not recognized this claim.

The National Harbours Board, on the other hand, shows on its books an account receivable from the Department of Public Works in the amount of $52,000, which it contends the Department owes it for water supplied between September 1964, the date on which the Quebec District Office of the Department ceased to pay water charges to the National Harbours Board, and June 1967, at which date the Board ceased billing the Department.

As far as we are able to determine, the amount claimed by the City from the National Harbours Board, which is referred to in paragraph 114 of this Report, does not include any amount with respect to the Champlain Harbour Station. However, in any event, the Board is in a position to ensure that, in the eventual settlement, no

amount is paid with respect to the Champlain Harbour Station and it would seem that it should cancel its charge of $52,000 against the Department of Public Works and refund to that Department the $25,000 collected for water service to the Champlain Harbour Station for the period 1958 to 1964.

116. *Dispute over electricity charges with the tenant of a grain elevator at Quebec City.* The tenant who took over the operation of the National Harbours Board's grain elevator at Quebec City on May 1, 1967 refused to pay for electrical power consumed between that date and May 31, 1968 at the rates established by by-law of the Board. He contended that the rate was excessive and in fact it was reduced with effect from June 1, 1968. The tenant has paid for all power consumed at this reduced rate and, as a consequence, the Board shows an account receivable from the tenant in an amount of $32,000. Little progress appears to have been made towards collecting this amount.

117. *Inadequacy of crane charges—Vancouver Harbour.* The operation by the National Harbours Board of the cargo cranes on Ballantyne and Centennial Piers, the heavy lift crane on Lapointe Pier and the 300-ton fixed crane on Centennial Pier resulted in a substantial loss in the year ended December 31, 1969. Revenue for the year amounted to $51,000 whereas the operating expenditure amounted to $127,000, exclusive of depreciation charges, resulting in a loss of $76,000.

Although the operators' wages, currently $6.50 per hour, are a significant factor in the cost of crane operations and have increased materially over the years, the three tariffs establishing crane charges have remained unchanged since 1966, 1961 and 1949 respectively.

We have recommended that a review be made of all charges for crane operations.

118. *Ex gratia payment without Executive approval.* The National Harbours Board and the Board of Grain Commissioners received complaints from a United Kingdom company that there were shortages in deliveries of wheat from National Harbours Board elevators at Montreal, Quebec, Halifax and Churchill. The initial complaint was made in 1964 with respect to a cargo loaded in June 1964 and this was followed by complaints with respect to 29 other cargoes loaded between July 28, 1964 and November 21, 1968.

Investigation of these complaints was carried out by the National Harbours Board in both Canada and the United Kingdom. It was found that the scales used in Canada by the Board met the requirements of the Board of Grain Commissioners but the scales used for weighing the grain in the United Kingdom did not.

On the recommendation of the Board of Grain Commissioners, the National Harbours Board tendered a "goodwill" payment of $12,000, one-third of the amount claimed, which was accepted by the claimant. We have advised the National Harbours Board that in our view this was an *ex gratia* payment and Executive approval should have been obtained.

119. *Provincial payments to federal hospitals under the Hospital Insurance and Diagnostic Services Act.* Regulations approved by the Governor in Council under the provisions of the Hospital Insurance and Diagnostic Services Act, *1957, c.28,* stipulate that:

> The amounts payable by a province in respect of the cost of insured services provided by federal hospitals shall be determined on the basis of the amount that would have been paid by the province for such services to hospitals other than federal hospitals in that province that are comparable as regards size, facilities, standards of service and location.

The agreements that have been entered into with each of the provinces and the territories set out the manner in which they will comply with the Regulations in the matter of reimbursing federal hospitals for the cost of providing insured services. Generally, federal hospitals are required to submit to the provincial hospital insurance authority the same returns and information, including budgets and audited financial statements, that are required from non-federal hospitals and they are also to be paid on the basis of approved audited costs. If a federal hospital is unable to provide the required returns, it is to receive payment, usually expressed as a patient-day rate, calculated on the basis of amounts paid to non-federal hospitals providing similar services. One province and the two territories pay at patient-day rates that have been negotiated between the hospital insurance authority and the appropriate federal authority.

Reference has been made in our Reports for the past six years (paragraph 125 in 1969) to our inability to determine whether the terms of the agreements with the various provinces under the Act, relating to payment to federal hospitals, were being observed in all cases. This stemmed in part from the inadequacy of accounting and medical records in some hospitals. We also stated that although most Department of National Health and Welfare hospitals had introduced accounting records based on the Canadian Hospital Accounting Manual, many were experiencing difficulty in maintaining the records.

Our examinations during the year disclosed that, although there has been some improvement, the situation remains basically the same. Postings of accounting records were still considerably in arrears at some hospitals, with consequent delays in the submission of returns and billings to the provinces. The delays continue to be mainly attributable to the difficulty of recruiting and retaining adequate staff for the hospitals, about half of which are in remote locations.

The following are examples of deficiencies in hospital accounting records that were noted in our examinations:

1. Although the general ledger at the North Battleford Indian Hospital was set up in accordance with the Canadian Hospital Accounting Manual, by October 1969 it had been posted only to December 31, 1967. The hospital's financial return for the year 1967 was not submitted to the Saskatchewan Hospital Services Plan until May 1969. The 1968 financial return was completed in June 1970.
2. In order to produce financial statements for the Moose Factory General Hospital for 1966 and 1967 and the Sioux Lookout Indian Hospital for 1967, the services of a firm of accountants were retained in March 1969. However, neither of these hospitals had submitted financial returns for 1968, indicating that their accounting records were still

considerably in arrears. The per diem rates of these hospitals have been on an interim basis since 1964. Negotiations are currently in progress with the Province of Ontario to obtain suitable retroactive per diem rate adjustments.

3. The per diem rates for the Lady Willingdon Indian Hospital which was closed in 1968 had been on an interim basis since 1963. Negotiations are being carried on with the Province of Ontario to obtain suitable retroactive per diem rate adjustments.
4. Five other departmental hospitals located at Frobisher Bay, Inuvik, Fisher River, Norway House and Miller Bay have never been able to submit financial returns due to either deficiencies in the accounting systems or a lack of qualified personnel to prepare them. The Miller Bay Hospital is scheduled to close in 1971.

Unless the records of these hospitals are established and maintained in accordance with the Canadian Hospital Accounting Manual and kept up to date so that the hospital returns are prepared and submitted promptly to the provincial hospital service plans, it is not possible for us to determine whether per diem rates being received by the hospitals are equitable and in accord with the terms of the agreements with the provinces.

120. *Contingencies Vote used to supplement funds provided by statute.* Provision is made in the Fitness and Amateur Sport Act, *1960-61, c.59,* for payments, not exceeding $5,000,000 in any one year, to encourage, promote and develop fitness and amateur sport in Canada, including grants to any agency, organization or institution carrying on activities in the field.

Under the provisions of the Act, grants totalling $2,250,000 were made to the Pan-American Games (1967) Society during the years 1965 to 1968, as a contribution towards the estimated cost of $4,960,000 of staging the Games in Winnipeg during Centennial Year. Costs in excess of this amount were to be borne equally by the Province of Manitoba and the City of Winnipeg. As the result of both a shortfall in revenue and costs in excess of forecasts, the net expense of the Games rose to $6,047,000, an increase of $1,087,000 over the amount estimated.

Early in 1968 the City sought financial assistance from the Federal Government to cover its share of the excess cost, $543,000, plus bank interest of $46,000 which it had incurred. On April 26, 1970 the Treasury Board approved payment of $589,000 as a charge to 1969-70 Treasury Board Vote 5 – Contingencies. However, the cheque was not released until May 29, 1970.

This charge to the Contingencies Vote is irregular because the Fitness and Amateur Sport Act provides for payments "not exceeding $5,000,000 in any one fiscal year" and payments already made in 1969-70 totalled $4,984,000. Therefore, the authority of Parliament was required to make the additional payment.

121. *Canada Assistance Plan.* The Public Accounts Committee in its Fourteenth Report 1966-67 asked the Auditor General to follow up and report to the House on the progress made in implementing the Canada Assistance Plan, *1966-67, c.45,* and on the adequacy of this new comprehensive approach to social assistance in overcoming administrative weaknesses previously criticized.

We have reported in previous years (paragraph 127 in 1969) on the phasing out of contributions to the provinces under agreements pursuant to the Unemployment Assistance, Old Age Assistance, Blind Persons and Disabled Persons Acts consequent on the enactment of the Canada Assistance Plan. This changeover has continued and during 1969-70 all provinces were making claims under the Plan, although two provinces continued to claim concurrently under the Unemployment Assistance Act, *1956, c.26,* and all provinces under one or more of the three categorical programs. It is expected that ultimately all contributions to the provinces towards the cost of social assistance will be made under the provisions of the Canada Assistance Plan.

The following summary of payments under each program shows the substantial increase over the past four years in claims under the Canada Assistance Plan and the corresponding decreases under the unemployment assistance and categorical programs. However, it should be noted that a substantial part of the decrease in the amounts claimed under the Old Age Assistance Act, *R.S., c.199,* which provides benefits for persons in need who are 65 years or over, reflects the year-by-year reduction from 70 to 65 in the eligible age for pensions under the Old Age Security Act, *R.S., c.200.* From January 1, 1970 persons 65 years of age are eligible for Old Age Security pensions and therefore the Old Age Assistance program is no longer operative:

	Year ended March 31			
	1970	1969	1968	1967
Canada Assistance Plan	$ 293,529,000	$ 256,806,000	$ 225,611,000	$ 10,496,000
Disabled persons allowances	4,401,000	6,388,000	7,063,000	15,025,000
Blind persons allowances	1,852,000	2,057,000	2,314,000	3,377,000
Unemployment assistance	731,000	1,049,000	6,122,000	143,272,000
Old age assistance	708,000	3,370,000	8,896,000	19,696,000
	7,692,000	*12,864,000*	*24,395,000*	*181,370,000*
	$ 301,221,000	$ 269,670,000	$ 250,006,000	$ 191,866,000

Last year we stated that our examination was somewhat limited as certain provinces were having difficulty adjusting their social assistance administration to the requirements of the Canada Assistance Plan and, therefore, claims were considerably in arrears. At March 31, 1970 this situation had been largely overcome and all provinces had submitted statements of final costs for 1966-67 and 1967-68 and all but four provinces for 1968-69. Our examinations have not disclosed any serious weaknesses in the administration of the Plan.

122. *Frauds in the Old Age Security Program.* In last year's Report (paragraph 128) reference was made to frauds involving approximately $800,000 in the Old Age Security Program that an investigation had disclosed following a routine check by the Department of National Health and Welfare of undelivered cheques at one regional office. Recoveries of about $200,000 had been made and the investigation was continuing.

Further investigation disclosed additional irregular payments, bringing the total to $961,000, of which $375,000 has been recovered. The investigation has not yet been completed.

123. *Guaranteed income supplement.* An amendment (*1966-67, c.65*) to the Old Age Security Act, *R.S., c.200,* provides for payments to pensioners under the Act of a supplement of up to 40% of the amount of their monthly pension if the pensioner's income in the previous year is below a stipulated amount. To qualify for payment the pensioner must make an annual application showing his income for the preceding year.

In order to assess the effectiveness of the administration of the program and to detect erroneous or fraudulent claims, the Department of National Health and Welfare submits about 5% of each year's claims to the Taxation Division of the Department of National Revenue for comparison of the income shown by the applicant on his claim with that shown on his income tax return for the same year. The tests made in 1968 and 1969, relating to income in 1967 and 1968, disclosed overpayments of about $175,000 each year. As each of these tests covered only about 5% of the claims submitted, they indicate yearly overpayments in excess of $3 million on a program having an annual expenditure of approximately $250 million. Prior to the comparison of 1969 income with income tax returns, we suggested to the Department of National Health and Welfare that a 5% test, which would only cover the total case load in a period of 20 years, was small in relation to both the amount of the errors disclosed and the age of the recipients, all of whom are over 65 years of age. The Department decided, however, to continue the 5% test in respect of 1969 income and, if results warrant, to consider a more extensive check in future years. The test of 1969 income, which was completed in the latter part of 1970, disclosed overpayments of about $265,000 indicating a total overpayment in excess of $5 million.

124. *Translation costs improperly charged to a departmental vote.* Section 3 of the Translation Bureau Act, *R.S., c.270,* established the Bureau for Translations and made it responsible for providing translation services to all departments of the Public Service. These services include making and revising all translations from one language into another of all departmental and other reports, documents and correspondence. The Act also provides that it is the duty of departments to collaborate with the Bureau in putting into effect the provisions of the Act.

In order to facilitate the provision of translation services, the Bureau usually arranges to station one or more translators within the department being serviced. In the event that the translation work load is such that the services of translators outside the Public Service are required, the contract for outside services is entered into by the Bureau for Translations and the cost is charged to the appropriation provided for the Bureau.

During the year officials of the Department of National Health and Welfare found it necessary to seek additional translation services in order to expedite the translation of the 1968-69 Annual Report of the Department and a manual on communicable diseases in man. The additional services were carried out under contract by regular

employees of the Bureau attached to the Department working in their off-duty hours, without reference to the Bureau for Translations. The cost thereof, amounting to $5,073 in 1969-70, was charged to the administration vote of the Department.

After we drew these payments to the Department's attention, instructions were issued that in future all translation services must be provided by the Bureau for Translations. This has partially solved the problem, but because of the lack of clarity and completeness of the definitions in the Translation Bureau Regulations, there remain differences of opinion as to what translation services comprise. The Department has stated that in its opinion the services under the contract referred to do not come under the terms of the Translation Bureau Act and its Regulations because "The contracts refer to the adaptation of existing material in the French language and not to the direct conversion of subject matter from one official language to the other". The Department has undertaken to obtain clarification of the definitions in the Translation Bureau Regulations. (See also paragraphs 85 and 109 of this Report.)

125. *Departmental practices which lack statutory sanction.* In paragraphs 130 and 132 of our 1969 Report we drew attention to twelve practices of the Customs and Excise Division of the Department of National Revenue which lacked legislative sanction. During the year, eight of the practices continued to lack legislative sanction:

(a) determination of "sale price" for sales tax purposes—see section 30 of the Excise Tax Act, *R.S., c.100*; (see also Appendix 1, item 13);

(b) delay in collecting tax—see section 30 of the Excise Tax Act; (see also Appendix 1, item 38),

(c) operating bonded warehouses without the joint control of the licensee and excise officers—see section 51 of the Excise Act, *R.S., c.99;*

(d) granting permission to distillers to replace bottled spirits broken in an in-bond case warehouse with duty-free spirits—see section 54(1) of the Excise Act;

(e) granting permission to distillers to remove from their premises packages containing less than five gallons of spirits—see sections 157 and 162 of the Excise Act;

(f) refunding duty paid on beer exported from the country although the advance notice of export is less than the required 48 hours—see section 175 of the Excise Act;

(g) granting abatements for shrinkage of spirits by evaporation beyond 15 years—see section 137 (1)(d)(ii) of the Excise Act; and

(h) calculating duties of excise on spirits distilled or brought into a distillery by a method which does not yield "the greatest amount of revenue" as required by section 137(1) of the Excise Act.

In its Fifth Report 1966-67 the Public Accounts Committee expressed the opinion that

> a government department should not initiate or take any action that is not authorized by Parliament even though it contemplates that Parliament may eventually take action to provide that authority. It [the Committee] considers that the actions of government departments must be limited at all times to the legislative authority existing at the time the action is taken.

Amendments to the Excise Act, *1969-70, c.62,* which were assented to on June 26, 1970 gave statutory sanction to items (c) to (h) inclusive.

In writing to the Chairman of the Public Accounts Committee on November 25, 1970 concerning action taken on matters referred to in the Committee's Fourth Report 1969-70, the Minister of National Revenue referred to item (a) as representing a most difficult legal and practical problem on which the Department has been working with the Department of Finance for some time. With regard to item (b), the Minister stated that the opinion expressed by the Committee that an amendment to the Excise Tax Act should be sought has been noted by the Department and an appropriate statutory amendment forms part of the Department's legislative program.

126. *Concessions made to motor vehicle manufacturers.* This subject was first brought to the attention of the House in our 1966 Report because of the responsibility of the Auditor General to examine and ascertain not only that all public moneys are being fully accounted for but that the rules and procedures applied are sufficient to ensure an effective check on the assessment, collection and proper allocation of the revenue.

As long as there are conditions to be met before a motor vehicle manufacturer qualifies for duty-free importation under the various programs involving concessions to such manufacturers, it is essential that adequate procedures and accounts be set up and that information flow into the Department of National Revenue promptly since it is the responsibility of that Department to take and maintain the initiative in assessing and collecting taxes due to the Crown. In previous Reports (paragraph 134 in 1969) we showed that the procedures followed by the Customs and Excise Division of the Department of National Revenue in administering these concessions to motor vehicle manufacturers were not adequate to protect the revenue, and that it was essential that the Department take steps to strengthen its administration of the programs to ensure that the importers concerned did not benefit from concessions beyond those approved by the Governor in Council and that revenues due to the Crown were promptly collected. The deficiencies found in this respect during the course of our examination were described in our Reports to the House.

Our findings on this subject in our 1968 Report were examined by the Public Accounts Committee at meetings held on June 10, 12, and 17, 1969, at which time officials of the Department of National Revenue, the Department of Industry, Trade and Commerce and the Department of Finance were questioned. No report on these meetings has yet been made to the House by the Committee.

There has been little change during the year under review.

Reference was made last year to the Motor Vehicles General Remission Order, which was introduced by Order in Council P.C. 1969-172 of January 28, 1969 and later amended by Order in Council P.C. 1970-382 of March 3, 1970. This Order, which covers importations to July 31, 1969 only, had retroactive effect to January 18, 1965 and generally covers the same areas as the Motor Vehicles Tariff Order 1965 but provides different criteria to be met in earning entitlement to free importations of vehicles and parts. To qualify for remission under this Order, a manufacturer must

(a) have produced vehicles in Canada in the base year with a sales value at least equal to the sales value of vehicles sold in Canada in that year, and

(b) obtain in future similar yearly periods—
   (i) a percentage of Canadian value added in production of vehicles, and parts and accessories for export, to the production costs of vehicles only, equal to or greater than the percentage of Canadian value added in the production of vehicles to the production costs of vehicles in the base year, and
   (ii) a dollar sales ratio of Canadian-produced vehicles sold, to total sales of vehicles for consumption in Canada, of at least 95%.

As the Motor Vehicles General Remission Order had retroactive effect to January 18, 1965, those major motor vehicle manufacturers who had been unable to meet the conditions of the Motor Vehicles Tariff Order 1965 up to July 31, 1968 were able to claim entitlement to free importation of vehicles and parts under the new Order as they met its conditions. Thus all duties and sales tax on duties which had previously been established as owing by motor vehicle manufacturers because of failure to meet the requirements of the Motor Vehicles Tariff Order 1965 were remitted by this Order.

All major motor vehicle manufacturers also met the conditions of one or the other of the programs for the year ended July 31, 1969 and consequently there were no duties and sales tax on duties owing by these manufacturers at March 31, 1970. However, as the Motor Vehicles General Remission Order covers importations to July 31, 1969 only, manufacturers may fail to qualify for concessions in future years.

127. *Remissions granted by the Governor in Council under section 22 of the Financial Administration Act.* Section 22(1) of the Financial Administration Act provides that:

> The Governor in Council, on the recommendation of the Treasury Board, whenever he considers it in the public interest, may remit any tax, fee or penalty,

and subsection (8) requires that:

> A statement of each remission of one thousand dollars or more granted under this section shall be reported to the House of Commons in the Public Accounts.

In accordance with this requirement, listings of remissions of one thousand dollars or more are included in Volume I of the Public Accounts. However, in some instances there has been a departure from past practice in that names have not been shown. As in previous years, the majority of these remissions pertain to customs and excise duties and excise taxes administered by the Customs and Excise Division of the Department of National Revenue. The totals of the remissions with respect to this Division for which amounts appear in the Public Accounts, in each of the past five years, are as follows:

1965–66	$ 34,826,000
1966–67	30,134,000
1967–68	29,506,000
1968–69	197,308,000
1969–70	179,826,000

In addition to the remissions for which amounts are shown, a number are granted where the amounts involved are not accumulated or cannot be readily determined. In such cases, a narrative description of the remission is included in the Public Accounts.

The remissions in 1969-70 include $72.9 million, compared with $108.5 million in 1968-69, granted to motor vehicle manufacturers who had failed to meet the conditions of the Motor Vehicles Tariff Order 1965. (See also paragraph 126 of this Report.)

Remissions relating to a machinery program amounted to $55.1 million compared with $32.2 million in 1968-69. This program was introduced by the Department of Industry, Trade and Commerce in December 1967 to enable Canadian industries to acquire capital equipment at the lowest possible cost.

Remissions on goods or equipment imported into Canada on a temporary basis amounted to $21.7 million in 1969-70 compared with $17.1 million in 1968-69.

Remissions totalling $12.6 million were granted during the year to Canadian airlines making use of their aircraft in international as well as domestic service. The percentage of duties and taxes remitted is the percentage that international usage of facilities bears to their total usage.

In connection with remissions of a continuing nature on which we have commented in previous Reports (paragraph 135 in 1969) the Public Accounts Committee in its Fourth Report 1969-70 recommended

> that remissions of a continuing nature should be revoked once they have served their purpose and not be left available for the benefit of future individual cases which might happen to qualify under them.

and

> that all unrevoked remissions of a continuing nature be reported in the Public Accounts annually.

This recommendation has been implemented by the Customs and Excise Division of the Department of National Revenue by revocation of continuing remissions which are no longer required and by reference to unrevoked remissions of a continuing nature in the listings of remissions which are included in section 9 of Volume I of the 1969-70 Public Accounts. However, in some cases of continuing remissions, little more than the Order in Council number is given whereas it has been customary to indicate the imports and importers affected by the remissions.

128. *Income tax owing by non-residents.* In previous Reports (paragraph 140 in 1969) reference has been made to the deletion from the accounts, with the approval of Parliament, of income tax owing by taxpayers from whom collection could not be effected because they were no longer resident in Canada.

During the year such deletions amounted to $746,000 owing by 630 taxpayers, including $410,000 owing by 14 taxpayers. This compares with deletions in the previous year of $366,500 owing by 35 taxpayers.

The continuing problem of collecting income tax from non-residents is aggravated by the fact that a person emigrating from Canada is not required to obtain a tax clearance before departure, by the lack of any agreement with other countries for the collection of tax on a reciprocal basis, and by the apparent inability of any government to make use of the courts of another country for tax collection purposes.

The problem is not limited to persons who are non-residents of Canada but also extends to some residents of Canada living near the United States border who are employed in the United States. Such persons are taxable in Canada on their income, whether earned in the United States or Canada, but collection becomes impossible if the taxpayer arranges to keep in the United States any assets which might be seized.

The Public Accounts Committee in its Fourth Report 1969-70 stated that:

> Your Committee recommends that this is an area where the government should take immediate steps, perhaps by a series of agreements with other countries as well as developing its own internal procedures, to minimize the evasion of payment of income tax by persons leaving Canada or removing assets from Canada.

129. *Income tax concessions to members of the Canadian Forces.* In previous Reports (paragraph 141 in 1969) attention has been drawn to two income tax concessions to members of the Canadian Forces. The first is that a serviceman, unlike a civilian taxpayer, receives the benefit of the married exemption even though his wife's income exceeds $1,250, and where his wife has an income between $250 and $1,250 in a taxation year he is not required to reduce his married exemption by the amount by which his wife's income exceeds $250.

The situation remains the same. If the wives of only 1,000 of the 67,000 married servicemen on strength at March 31, 1970 have an income of $1,250 or more, then the annual loss to the Crown is equivalent to the income tax on $1 million of taxable income.

The second concession referred to is a provision in the Regulations made pursuant to section 66(1) of the Income Tax Act, *R.S., c.148,* that no amount of tax is to be paid by a member of the Canadian Forces on amounts of pay and allowances payable in a taxation month in consequence of an upward adjustment in the month of his pay and allowance entitlements for a month. A general pay increase granted to officers of the Canadian Forces effective October 1, 1969 was commenced in October, resulting in a loss to the Crown of tax on $848,700 of taxable income for the month of October. A test examination of increases in monthly pay due to promotion, etc., aggregating $1,537,000, revealed that 61% of them were commenced in the month in which they were effective, resulting in a loss to the Crown of tax on an estimated $500,000.

Another income tax concession to members of the Canadian Forces permits a member, who reports income from sources other than employment as a member, to calculate tax on this income commencing at the lowest percentage rate in effect for the taxation year. The result is that this income is being taxed at a lower rate than would be the case for civilian taxpayers.

This matter is referred to in paragraph 2.27 of the Proposals for Tax Reform tabled by the Minister of Finance on November 7, 1969:

> A special section of the Income Tax Act permits members of the armed services to be taxed under regulations on a monthly basis. For simplicity of administration various short cuts and adjustments are made in determining their income and taxes. This leads to some special benefits for some members of the forces. Under present circumstances members of the forces can be taxed on the same basis as other Canadians and it is our intention to do so.

130. *Insufficient penalty for late payment of income tax.* In previous Reports (paragraph 142 in 1969) we have drawn attention to the substantial amounts of income tax remaining unpaid at March 31 of each year. We have suggested that the imposition of penalties for late payment, over and above the 6% interest which is payable on taxes paid after the due date, could be of material assistance to the Taxation Division of the Department of National Revenue in collecting its outstanding accounts.

The situation remains the same and unpaid income tax at March 31, 1970 amounted to $333 million compared with $277 million at March 31, 1969.

131. *Expenditure made without proper authority.* In previous years we have reported to the management of Northern Canada Power Commission instances where the Commission incurred expenditures on projects in excess of the amounts authorized and instances where expenditures were incurred prior to obtaining authority from the Governor in Council or the Treasury Board as required by the Northern Canada Power Commission Act, *R.S., c.196,* or the Government Contracts Regulations. The following are examples noted during the year:

1. LACK OF AUTHORITY FROM THE GOVERNOR IN COUNCIL. Section 6(3) of the Northern Canada Power Commission Act provides that the Commission shall not enter into any contract for a project, other than for maintenance or repairs, involving expenditure exceeding $50,000 unless the undertaking of the project has been approved by the Governor in Council. Expenditure was incurred on the following projects during the year although approval of the projects by the Governor in Council was not obtained until August 1970:

	Estimated project cost	Expenditure during 1969–70
Frobisher Bay— additional generating equipment	$ 750,000	$ 17,000
Norman Wells— additional generating and auxiliary equipment including distribution system extensions	120,000	61,000

   Bill C-193, "An Act to amend the Northern Canada Power Commission Act", which is presently before the House of Commons, will, if passed, repeal section 6(3) of the Act.

2. EXPENDITURE PRIOR TO OBTAINING AUTHORITY FROM THE GOVERNOR IN COUNCIL. Prior to obtaining the approval of the Governor in Council the Commission incurred expenditure of $551,000 on the construction of additional generating capacity, fuel storage and utilidor structures at Frobisher Bay. Furthermore, by March 31, 1970 the Commission had incurred expenditure on this project of $1,449,000 which was $49,000 more than authorized. We were informed that the Commission is to apply to the Governor in Council for an increase in the amount authorized for the project.

3. EXPENDITURE INCURRED IN EXCESS OF AMOUNTS APPROVED BY THE TREASURY BOARD. The Government Contracts Regulations provide that where a construction contract was entered into with the approval of the Treasury Board, the amount may be increased without further approval by not more than ten per cent or by fifteen thousand dollars whichever results in the lesser amount. During the course of our audit we found that the Commission had exceeded these limits on five contracts during 1969-70. These contracts had been approved in the amount of $2,553,000 but expenditure totalled $2,939,000.

132. *Inadequate accounting and financial controls.* Our examination of the Northern Canada Power Commission's accounts disclosed a number of unsatisfactory accounting and financial controls:

1. INVENTORIES. At the time of our audit, subsequent to the year-end, accounting entries had not been made with respect to materials issued from the stores during a four-month period at the Frobisher Bay plant and during a one-month period at the Moose Factory plant. As a result of our findings, adjusting entries of $154,000 were required. Furthermore, accounting entries had not been made with respect to differences between the value of inventories actually counted and the value appearing in the books at three plants. Adjusting entries of $28,000 were necessary to correct this situation.

2. PAYROLLS. Delays of up to three months in recording charges for salaries and wages were noted. We were informed by accounting officials that the delays were due mainly to the turnover and shortage of staff.

3. ACCOUNTS PAYABLE. In numerous instances payment vouchers for the discharge of suppliers' accounts were prepared, coded and approved for payment by the same officer. We recommended that the Commission implement a system of internal control so that no one individual would have complete control over the processing of any voucher.

4. CAPITAL ASSETS. The Commission's accounting procedures require an annual physical inventory of the capital assets at each plant, which is subsequently to be agreed with the records at head office. With the exception of the Inuvik plant, the inventories submitted by the plants had not been completely checked to the head office records. We were informed that it is difficult, and in some cases impossible, to identify the individual items on the plant reports with the items described in the head office records. Seven plants had failed to make reports on their physical inventories.

133. *Inadequate collection action with respect to accounts receivable.* In the past two years we have reported to the management of Northern Canada Power Commission that their lack of action in collecting customers' accounts has resulted in a significant number of them becoming overdue. At March 31, 1970 overdue accounts amounted to $613,000 or 17% of the total accounts receivable. These included:

Department of Indian Affairs and Northern Development	$ 306,500
Canadian National Telecommunications	130,100
Government of the Northwest Territories	59,000
Department of Transport	18,500
Department of Public Works	2,700

We recommended that the Commission give priority to the collection of outstanding accounts and that an adequate provision for doubtful accounts be established with respect to approximately $90,000 in overdue accounts of non-governmental customers.

134. *Second class mail.* In his Report for the year 1956-57 the Auditor General drew attention to postal revenue of $6 million from second class mail which fell about $18 million short of meeting the cost of handling that mail.

In Volume III of the Report of the Royal Commission on Government Organization which was released in 1963, the Commission reported that the Post Office in 1958-59

had suffered a loss of $21.7 million on mailings by publishers from which revenues of only $6.2 million had been received. The Commission then remarked that from the point of view of constituting the Post Office as a business-like operation and assessing its performance in terms of financial results, the imposition of an obligation to subsidize second class mail from its own pocket seemed undesirable. It concluded that if Parliament continues to require that over three-quarters of the cost of postal distribution of newspapers and periodicals be met from the public purse, a specific grant should be made to cover the deficit and it recommended that:

> An annual grant be made by Parliament in amount sufficient to cover the costs of the Post Office in handling second class mail, to the extent that such exceed postal revenues arising from the rates set by Parliament.

The Public Accounts Committee gave consideration to the loss on mailings by publishers of newspapers and other periodicals which was increasing each year and on several occasions has recommended that consideration be given by Parliament to ways and means of covering this loss of the Post Office Department. The Committee has asked that this matter be kept before Parliament in our annual Reports in order that subsequent Committees may give consideration to it.

The loss on these mailings reached a peak of $41.1 million in 1968-69 representing a subsidy of 80% of the cost of handling this class of mail. (See paragraph 143 of our 1969 Report.)

By an amendment, *1968-69, c.5,* to the Post Office Act, *R.S., c.212,* rates for second class mail were increased effective April 1, 1969, October 1, 1969 and April 1, 1970. This amendment also revised the definition of second class mail and established new requirements for entitlement to second class mailing privileges. Some 2,000 publications did not meet the new requirements, resulting in a reduction of 152 million pieces of second class mail and a decrease of $9 million (18%) in the costs attributable to second class mail in 1969-70. The increased rates, which were not fully in effect throughout 1969-70, resulted in an increase of $4.2 million (40%) in revenue in that year and a reduction of the annual deficit to $27.9 million, bringing the subsidy down to 66% of the mail handling costs.

The increase in the rates and the more stringent requirements in order to qualify for the second class rate go a long way towards meeting the recommendation of the Public Accounts Committee. However, the annual deficit in 1969-70 was greater than it was when the matter was first considered by that Committee.

If it is deemed advisable to continue to subsidize the mailing by publishers of newspapers and other periodicals, we suggest that further consideration be given to the recommendation of the Royal Commission on Government Organization that an annual grant be made by Parliament in an amount sufficient to cover the loss incurred by the Post Office in handling second class mail. Adoption of this practice would not only provide the Post Office with revenue sufficient to cover its costs of handling second class mail but it would enable the Members of Parliament to see each year at the time the Esti-

mates are being considered the extent of the change in the estimated amount of this subsidy and it would implement the recommendation the Public Accounts Committee made in its Fourth Report 1966-67 when it stated that:

> It considers it essential that the Post Office Department or Parliament immediately find ways and means of covering the loss of the Post Office Department in handling second class mail without this being done at the expense of other classes of mail, keeping in mind, however, the need of assistance to small independently-owned newspapers circulating in rural areas. (See Appendix 1, item 1.)

135. *Failure by government departments to make proper payments for postage.* The Post Office Act, *R.S., c.212,* requires that first class mail addressed to and mailed by government departments in Ottawa be carried free of charge by the Post Office but other postal services such as air mail, third and fourth class mail, registration and special delivery are to be paid for at regular rates by the departments concerned.

In paragraph 146 of our 1969 Report we drew to attention shortcomings in the procedures, instituted in 1964 following a recommendation of the Royal Commission on Government Organization, whereby departments were to estimate the postage on their mail for the ensuing year and to pay that amount in quarterly instalments to the Post Office with an adjustment to be made in the payment for the final quarter of the year to reflect any differences in the actual and estimated quantities of mail. The Post Office suspected that some departments were not careful in estimating their postage or in keeping track of their mail in order to effect the adjustments required in the final quarter of the year and had become aware of an instance in which the publications branch of a department, in which detailed mail records were kept, had not paid the full amount of postage owing by it. In 1967-68 it had paid to the Post Office only $45,000 although detailed records showed the proper amount to be in excess of $91,000, and in 1968-69 only $60,000 had been paid instead of the over $130,000 properly payable.

As it was evident that the procedures in effect were not producing the true mailing costs in the departments or true revenue figures for the Post Office, we recommended that procedures be substantially improved or replaced. In addition, we suggested that consideration be given to the elimination of the statutory free carriage of first class mail in order that the Post Office receive proper credit for all the service it provides and that departmental costs include all mailing costs.

In 1969-70 the publications branch previously referred to remitted to the Post Office the full amount for services provided in 1969-70, some $171,000, and a study was commenced by Post Office and Treasury Board officials with the objective of introducing measures to ensure that the Post Office is equitably compensated for the services it provides to other departments and agencies of the Federal Government.

136. *Purchase and resale of delivery vehicles.* In paragraph 147 of our 1969 Report we referred to the purchase by the Post Office on March 3, 1969 of a contractor's fleet of 243 vehicles at the appraised value of $331,465. When another contractor was found who

was prepared to carry out the contract services, these vehicles were sold to him on March 28, 1969 for the same amount, with $250,000 being paid immediately by him to Crown Assets Disposal Corporation and the balance of $81,465 to be paid on or before March 1, 1970, together with interest on the balance at the rate of 12% per annum.

Both the purchase order and the sales contract referred to the purchase (sale) of 243 vehicles described in schedules attached, for the consideration of $331,465. The schedules listed the 243 vehicles, showing a dollar value for each. In addition the schedule to the purchase order showed a total of $331,465.

In December 1969 the contractor who had purchased the vehicles notified Crown Assets Disposal Corporation that the amounts shown beside each vehicle on the schedule did not add to the agreed selling price of $331,465 but totalled only $316,716. The Corporation immediately reduced the sale price to the lower amount "in view of the obvious error in price in the sale of the fleet of trucks".

Upon learning of this adjustment in the sale price, the Post Office considered trying to recover the amount of $14,749 from the contractor from whom it had purchased the fleet, but was advised by the Department of Justice that the agreement was for the sale of the entire fleet at a stated price and not for the sale of individual units at individual prices and, therefore, there were no grounds for recovery of any amount from the contractor.

We are unable to determine from the files whether the Post Office had intended to purchase the vehicles at the total of the individual prices shown in the schedule to the purchase order or whether it had intended to pay more than the appraised value of the individual units. It is evident, however, that it was the Post Office's intention to purchase and resell the vehicles at the same price. This objective was not achieved.

137. *Cost of cancelling mail contracts.* In January 1970 the Post Office announced that the contract for the transportation of mail in the Montreal area would not be renewed as of April 1, 1970 and henceforth the work would be divided into several contracts. As a result of protests and work stoppages, a Commission of Inquiry into the vehicular delivery of mail in Montreal was appointed by the Governor in Council on March 17, 1970. The Commission recommended on March 26, 1970 that the Post Office take over mail transportation in the area and the newly-entered-into contracts that would have become effective April 1, 1970 were thereupon cancelled, the contractors not being required to perform any services.

Twelve contracts were involved, each of which provided for termination by the Postmaster General giving three months notice in writing with the proviso that if the work were terminated before the end of the notice period the contractor would receive as compensation 50% of the amount he would have received if the services had been effectively rendered during the unexpired notice period.

Upon cancellation of their contracts, four of the contractors, who held five city services contracts, were paid, on the advice of the Department of Justice, a total of

$790,000, the full amount that they would have received over a three-month period if they had performed the work required under the contracts. Five other contractors, who held six highway service contracts and one combined urban service contract, were paid a total of $30,000 with the excess of $15,000 over the 50% stipulated in the contracts being authorized on an *ex gratia* basis by the Governor in Council on April 28, 1970.

The total paid under the twelve contracts for which no service was received by the Post Office was $820,000.

138. *Allowances not reported for income tax purposes.* In 1965 it came to the attention of the Taxation Division of the Department of National Revenue that a boot allowance being paid by the Post Office to uniformed personnel was not being included in the earnings of the employees reported for income tax purposes. The responsibility for reporting these allowances rested with the Comptroller of the Treasury. The Taxation Division ruled at that time that the allowance was taxable but decided not to take action retroactively with respect to the years in which the allowance had not been included in earnings reported for taxation purposes. However, no request was directed to the Governor in Council for remission of the taxes not assessed as a result of this decision.

With effect from October 1, 1965, which was about the time the ruling was made by the Taxation Division, the boot allowance was discontinued and replaced by a salary increase of $60 per annum, thus removing the problem of failure to report the allowance as income of the employee.

However, on October 1, 1968 separate boot and glove allowances amounting to $75 per year were instituted and in the course of our examination of Post Office pay we found that once again the allowances were not being included in the earnings of employees reported for income tax purposes.

The Taxation Division has confirmed that these allowances are taxable under section 5(1)(b) of the Income Tax Act, *R.S., c.148,* but has indicated that it does not intend to request T-4 supplementaries reporting the allowance payments made to employees in 1968 and 1969. A consequence is that income tax on payments of up to $592,000 in 1968 and up to $1,100,000 in 1969 has been lost to the Crown. No submission was made to the Governor in Council requesting remission of the tax on this income.

139. *Irregular payment by Public Service Commission to National Research Council of Canada.* On March 26, 1970 the National Research Council of Canada submitted a billing to the Public Service Commission reading as follows:

> Payment due for transfer of administration and control of one IBM 360, Model 50 Central Processing Service Unit, Serial No. 11027 and support services rendered to date (Ref. T.B. authority 695–554)...... $ 175,000.

The Council has explained that the term "support services rendered to date" refers to the instruction and technical assistance normally provided by a vendor to a new user of equipment. The Treasury Board authority quoted was apparently verbal, it being

considered at that time that the transaction required the approval of the Governor in Council. The formal approval of the Treasury Board was conveyed to the Council in a letter dated August 31, 1970.

Notwithstanding the fact that the equipment was not to be delivered before July 1, 1970 (it was in fact delivered on October 1) and no part of its purchase price was properly chargeable to the Commission's 1969-70 appropriation, the Commission on the strength of this billing made a payment of $90,000 to the Council by cheque dated April 29, 1970 which was charged to Secretary of State Vote 80 of 1969-70. Although the computer is used by the Commission primarily in connection with its Data Stream record of public servants, which is a staffing matter, the payment of $90,000 has been recorded as an expenditure in connection with the operation of French and English language schools for public servants and the administration of bicultural development programs.

The Commission regards the $90,000 as a payment for computer services received from the Council, relying on the words "and support services rendered to date" appearing in the March 26 billing. It goes without saying that if this $90,000 was for services rendered by the Council, then it could not be applied toward the purchase price of the computer and the Council could not accept the balance of $85,000 as full payment for the computer because it would not then have received full value for its asset which had a trade-in value of $158,000. Neither would it have complied with the terms of the Treasury Board approval for transfer of the equipment on receipt of a payment of $175,000.

A consequence of this payment was that $90,000 of the Commission's 1969-70 appropriation which should have lapsed at March 31, 1970 did not do so.

140. *Recovery of the cost of training courses.* During the year expenditure of the Public Service Commission on staff development and training, exclusive of language training, amounted to $1,058,000, which included the cost of providing courses and associated services to government departments and agencies. With effect from April 1, 1970 some courses are being provided on a cost-recovery basis and an estimated $530,000 is expected to be recovered by the Commission in 1970-71. Beginning in 1971-72 the costs of all such courses are expected to be recovered. These changes will result in staff training costs being borne by the departments benefiting from the training, in keeping with the recently adopted "Planning, Programming, Budgeting System" which emphasizes the showing of the full costs for each program.

Expenditure by the Commission on language training amounted to $4,962,000 in the year which included only the cost of teachers and facilities. Because of the nature and scope of the language training program, it seems reasonable that the cost remain with the Commission. However, consideration should be given to having the program also provide for the salaries and expenses of persons taking this training, thus bringing together the full cost of the training as a further step in the development of program budgeting.

141. *Increasing accommodation rental costs.* In recent Reports (paragraph 151 in 1969) we have commented on a continuing escalation in the rental outlay of the Department of Public Works. The upward trend continued in 1969-70, as may be seen from the following comparison of rental costs for the past five years:

	National capital area	Elsewhere	Total
1965-66	$ 7,671,000	$ 5,438,000	$ 13,109,000
1966-67	10,301,000	6,847,000	17,148,000
1967-68	14,271,000	12,945,000	27,216,000
1968-69	18,028,000	16,043,000	34,071,000
1969-70	20,824,000	19,019,000	39,843,000

Space under lease in the national capital area at March 31, 1970 amounted to 5.9 million square feet compared with 5.7 million square feet at March 31, 1969.

We are of the opinion that costs will continue to be higher than necessary so long as the Department of Public Works continues to absorb rental costs out of its own appropriations with the ultimate choice of accommodation resting with the client departments. There was no change in the situation during 1969-70 but we are informed that the Department of Public Works intends to charge for accommodation with effect from a date which is yet to be determined. (See Appendix 1, item 40.)

142. *Eating facilities for Crown employees in public buildings.* In previous Reports (paragraph 153 in 1969) we have referred to the fact that eating facilities for government employees in public buildings are subsidized to a considerable extent because no charge is made by the Department of Public Works for space, fixed kitchen and serving counter equipment, tables, chairs, utility costs, etc. We observed that the Royal Commission on Government Organization had commented that, although it is common practice in the private sector to provide meals to employees at less than cost, such subsidies are carefully costed for purposes of management control. It was pointed out that until the Department is in a position to isolate the cost of eating facilities, the extent to which those operations are subsidized cannot be determined and proper management control established.

In September 1969 the Treasury Board announced plans for a comprehensive review of policies and practices relating to the provision of eating facilities for Crown employees. We understand that a purpose of the review, which is still under way, is to determine the most feasible and practical administrative arrangements that will keep costs in line.

143. *Improper charge to 1969-70 appropriation.* Early in 1969 the Department of Public Works entered into an arrangement with a consultant for the provision of architectural services in connection with a general purpose office building to be constructed in the Booth Street area of Ottawa for the Department of Energy, Mines and Resources.

Although the financial implications of the engagement were such that the authority of the Department of Public Works could be expected to be exceeded, it was not until October 1969 that Treasury Board approval of the appointment was obtained.

Towards the end of 1969-70 when expenditure under the agreement had reached $172,700, including $4,700 for work abandoned as a consequence of adding provision for a cooling system, the architect was informed that the project had been postponed indefinitely. The consultant submitted an account for a further $71,800, representing the portion of his fee due on receipt of tenders less an allowance for services not performed, requesting that payment thereof be considered in view of the indefinite nature of the deferment. The amount was charged to Public Works Vote 15 as an expense of the year and credited to the holdback account. In the absence of Executive authority to terminate the agreement, this was an improper charge.

Authority to pay a reduced amount of $67,500 was secured in July 1970, at which time it was stated that while construction would not proceed in the foreseeable future the documents would be held in readiness for later use at another site. We have since been informed that the project is to go ahead, with the consultant continuing to provide services under his original commission.

144. *Cost of vehicle cleaning equipment, Port aux Basques, Nfld.* In 1965 the Department of Public Works, on behalf of the Department of Agriculture, awarded a contract in the amount of $266,000 for the development, design, fabrication and installation of vehicle washing equipment, relative to a vehicle decontamination and inspection station to be erected at Port aux Basques. Construction of the station had been proposed as a measure to control the spread of potato diseases from Newfoundland, the hope being that it would be fully operational for the 1966 season.

However, it was recognized that standard commercial equipment would be inadequate for the purpose intended and that there would have to be a process of research and development, with practical experimentation, before the final equipment was made and installed. In fact, acceptance of the equipment, in place, was not achieved until September 1969. This major extension of the contractual period was attributed primarily to the revisions necessitated by an acute shortage of municipal water, to a difference in interpretation of contract requirements and disagreement on performance criteria, to program review and uncertainty as to whether the station would be located elsewhere, and to changes in the plans for the building and delay in its completion.

During the year the charges to the equipment contract reached $595,000. Included was compensation of $123,800 for the increased costs which had arisen from prolongation of the term of the contract and $8,600 for the expenses associated with storage of the equipment pending installation.

145. *Unused plans for National Defence Headquarters, Ottawa.* Paragraph 156 of our 1969 Report dealt with the cost to the Department of Public Works of plans prepared by a firm of architects for a Department of National Defence headquarters build-

ing at Ottawa. In February 1969 it had been decided that the original scheme would be abandoned in favour of a general purpose building concept developed by the Department of Public Works. We reported that a saving of $215,000 under an amended fee agreement negotiated with the architects for the new concept could be regarded as the value salvaged from the work performed earlier at a cost of $1,181,000.

Included in the latter amount was a payment of $325,000 with respect to which a cheque was prepared in April 1969 and charged to 1968-69 funds. Although the charge remained against the 1968-69 appropriation, the cheque was not released to the architects until October 1969.

The February 1969 decision was followed by a decision in October of that year to accommodate the Department of National Defence in a building designed for the Department of Transport, but still to be erected. Accordingly, the architects' agreement was terminated. The total non-productive expenditure on the project, taking into account the services of other consultants, was $1,405,000.

146. *Unused plans for additions and alterations to Food and Drug Laboratory, Ottawa.* In 1966 the Department of Public Works commissioned a firm of consultants to design, prepare working drawings and specifications for, and subsequently supervise construction of, additions and alterations to the Food and Drug Laboratory at Ottawa.

In 1968 the Treasury Board requested that construction be deferred. Reconsideration of the project in the following year led to the decision to abandon the existing plans and specifications and to proceed on the basis that the required office space would be provided in a general purpose office building then under construction and that a separate laboratory and animal building would be erected. The decision took into account both the need for less expensive accommodation and the fact that the site involved would not allow for future expansion.

In September 1969 the Department was authorized to pay the consultants for work completed prior to cancellation of the project on the understanding that if they were commissioned for the proposed separate laboratory their fees would be reduced by an appropriate amount in recognition of the knowledge gained from the earlier undertaking. Payments made during 1969-70 brought to $716,000 the amount received by the consultants in respect of the abandoned concept. Another consulting firm was retained in 1970 to carry out the planning for the new scheme.

147. *Additional planning fees due to limiting of construction cost, Ottawa.* In 1965 a firm of architects was retained by the Department of Public Works to design and prepare working drawings and specifications for, and to supervise construction of, a headquarters building in Ottawa for the Department of External Affairs. At that time the estimated construction cost was $9 million; however in 1966 the Department of Public Works was requested to provide for full development of the site and this resulted in a revised cost estimate of $25 million. By 1969 the anticipated cost had risen to $32.8 million.

However, it was decided that a limit of $25 million, based on 1968 prices, would be set for construction of the proposed building, and authority was obtained to pay the architects $320,000 for the additional work and revisions to the contract documents considered to be essential to reduction of the estimated cost. To March 31, 1970 the consultants had received $899,000 as the design fee based on the estimated construction cost of $32.8 million and $300,000 for revisions to the contract drawings.

148. *Additional costs due to construction delays, Ottawa.* In 1963 the Department of Public Works awarded a contract at a fixed price of $9,037,000 for the construction of an administration building in Ottawa for the Department of Agriculture. The contract called for completion of the work by April 22, 1966 but the building was not accepted until April 13, 1967. The cost to that point was $9,965,000.

During the year the cost increased to $10,219,000, reflecting additional compensation of $27,000 for elements of the work which had been in dispute and a settlement of $227,000 for delays. The contractor had requested payment of $1,136,000 on the grounds that it had been impossible to complete the project as planned because of the many changes, revisions and modifications introduced during the course of construction. The settlement recognized departmental responsibility for a six-month delay, which was attributed for the most part to nine major changes and covered job overhead, cleanup, temporary heat, light, power and water, snow removal, equipment rentals, increased labour rates, building insurance and subcontractors' claims.

Another consequence of the delays was an increase in the architect's fee (see paragraph 81 of our 1964 Report). In 1969-70 the architectural firm was paid $1,000 as fee on the disputed extras and $12,000 for investigation of the contractor's delay claim and, following the year-end, $11,000 as the architect's fee on the delay claim settlement.

149. *Additional costs due to construction delays, Warkworth, Ont.* In 1965 the Department of Public Works, on behalf of the Canadian Penitentiary Service, awarded a fixed price contract in the amount of $7,344,000 for the construction of a medium security institution at Warkworth.

The final cost of the work was $7,717,000. This amount included $89,000 paid in 1968-69 and 1969-70 in settlement of claims totalling $223,000. Except for an item of $1,800 for extra work, the settlement related to delays. Acknowledged causes of delay were modifications to service shafts and changes in electrical requirements, belated approval of the manufacture of redesigned doors and of the contractor's quotation for roof slab and lighting fixture changes, and additional cleanup in connection with floor grilles. The high incidence of revisions during construction was ascribed to the lack of large-scale penitentiary design in Canada for some years prior to the current program.

150. *Additional costs due to construction delays, Vineland, Ont.* In 1965 the Department of Public Works, on behalf of the Department of Agriculture, awarded a contract at a fixed price of $1,494,000 for the construction of an agricultural research laboratory at Vineland.

The actual cost of the work was $1,751,000. Included in that amount was a payment of $62,800 made in February 1970 in settlement of a claim for $244,400 submitted by the contractor in respect of extra costs incurred as a result of delays. The contractor had contended that completion of the project was delayed for 52 weeks because of the numerous changes required. The settlement recognized a delay period of 24 weeks, of which 12 weeks related to a change in window design, eight weeks to the supply and installation at the request of the Department of Agriculture of special tanks not provided for at the time of tender call, and four weeks to various other changes.

151. *Cost of unused plans, Toronto, Ont.* In 1968 the Department of Public Works engaged a firm of architects, engineers and planners for the design and subsequent supervision of construction of additions and alterations to the Arthur Meighen Building in Toronto. The estimated construction cost was $2.5 million.

When the preliminary plans were completed later in 1968 a revised cost estimate of $3.8 million was arrived at. In mid-1969 a maximum of $4.5 million was established for all costs of the project and, to meet that target, design deletions with an approximate value of $617,000 were effected. The consultants were paid $53,000 in 1969-70 for abandoned work, with $41,000 relating to the deletions made to keep the costs within the budgeted amount and the balance to various changes in requirements.

152. *Additional costs due to construction delays, Paspebiac, Que.* In October 1966 the Department of Public Works awarded a contract for harbour improvements at Paspebiac in the amount of $820,000 based on lump-sum prices, fixed unit rates and estimated quantities. The contract provided for the construction of a steel pile wharf and a rubble mound breakwater and for the dredging of a mooring basin and a turning basin. Contract extras included the removal of submerged cribwork that had not been shown by the plans. Upon acceptance of the work in September 1968 the contract outlay stood at $879,000, but payment of $114,000 during 1969-70 in settlement of a claim brought the final cost to $993,000.

The settlement, reflecting a reduction from a claimed amount of $429,000, included a net adjustment of $67,000 to cover the underrunning and overrunning of estimated contract quantities. The remaining $47,000 constituted payment for delays resulting from the encountering of the submerged cribwork and related materials not shown in the plans and specifications and for difficulties created by the seepage of backfill through a rock dyke along which the wharf had to be built. In the case of the underwater obstructions, $33,000 was allowed for delays which had arisen in the driving of steel pipe piles and in dredging, and for resultant damage to dredging equipment. The balance of $14,000 was agreed to in connection with delays in driving fender piles and with redredging which had stemmed from the backfill seepage.

153. *Additional costs due to construction delays, Calgary, Alta.* In 1965 the Department of Public Works awarded a contract at a fixed price of $919,700 for the construction of a building in Calgary to accommodate the Unemployment Insurance Commission

and the Department of Veterans Affairs. The final cost was $972,400, reflecting inclusion of $12,100 for contract extras and payment of $40,600 during 1969-70 in settlement of two claims submitted by the contractor.

One claim, for $75,000, stemmed from the rejection and necessary recasting of precast concrete panels. The settlement of $31,700 effected in that case consisted of delay costs amounting to $24,000 and other expenses of $7,700. The second claim totalled $25,000 and was with respect to delays caused by failure of the Department of Public Works to furnish layout plans when required and to approve quotations for contract extras within a reasonable time, and by the numerous changes in layout plans made during the course of construction. The Department acknowledged that a delay had occurred as a result of partition changes and an allowance of $8,900 was made.

154. *Cost of unused plans, Kelowna, B.C.* In our 1968 Report we referred to a payment of $13,000 to a firm of architects and consulting engineers retained by the Department of Public Works in 1964 to plan and supervise construction of a federal building at Kelowna. The outlay constituted compensation for work done on a concept envisaging a two-storey structure without basement, which had been abandoned in favour of a four-storey building on a foundation designed for the addition of two floors.

Late in 1968 the conclusion was reached that economies could be realized if the office needs of the Post Office Department and other governmental units were met by a three-storey building in downtown Kelowna and the mail-handling operations were removed to a separate facility in a less congested area. Accordingly, design on the four-storey concept was stopped, and the consultants were paid an additional $15,000, the cost of the second abandoned scheme. The two-building proposal has been proceeded with under construction contracts of $1,143,000 for the downtown federal building and of $212,000 for the suburban mail-handling depot.

155. *Subsidization of irrigation projects.* In previous Reports (paragraph 163 in 1969) we have referred to the operations of three irrigation projects carried on under the Prairie Farm Rehabilitation Act, *R.S., c.214,* with the costs being provided for by annual parliamentary appropriations.

During the year, the Prairie Farm Rehabilitation Administration continued to operate the projects and collected revenues at the same rates as in 1968-69. In the case of the Bow River irrigation project, Canada, in 1950, committed itself in perpetuity to an annual rate of $1.50 per irrigable acre on 90,000 acres in the Vauxhall and Hays districts. A further 25,000 irrigable acres are administered by the Province of Alberta, and the rate of 25 cents per acre foot of water delivered to the Province has remained unchanged since 1953 although the agreement between Canada and the Province provides that for each period of five years after 1958 the rate shall be the cost of delivery but not exceeding such rate as the parties may agree upon for the period. The annual water rental rate for the remaining 5,000 acres, which are on the Blackfoot Indian Reserve, has remained at 50 cents per irrigable acre since 1956. The rate of 25 cents per acre foot of water sold to the Province of Alberta for the St. Mary irrigation project, involving some

300,000 acres, has not been changed since 1955 when water was first delivered. Under the terms of the agreement, Canada is to deliver water to the Province "at cost provided such charge shall not exceed twenty-five cents per acre foot per year; and it is agreed that this clause shall be reviewed every five years." Water rental charges to users in irrigation areas in southwest Saskatchewan have been increased from time to time and now vary from 25 cents to $3.00 per acre, depending on the service provided.

Expenditure and revenue for the year ended March 31, 1970 were as follows:

	Bow River irrigation project	St. Mary irrigation project	Irrigation areas in southwest Saskatchewan
Irrigable acres	120,000	300,000	25,000
Expenditure—			
Administration, operation and maintenance	$ 1,010,000	$ 303,000	$ 325,000
Construction	341,000	40,000	—
	1,351,000	343,000	325,000
Revenue—			
Water charges	130,000	83,000	47,000
Other	154,000	—	35,000
	284,000	83,000	82,000
Excess of expenditure over revenue	$ 1,067,000	$ 260,000	$ 243,000

156. *Inadequate management of motor vehicle operations.* In our 1969 Report (paragraph 164) we drew attention to the under-utilization of some of the vehicles owned by the Prairie Farm Rehabilitation Administration with particular reference to its fleet of passenger automobiles. We also reported some of the findings of a motor vehicle study which had been completed by the Administration and expressed the belief that, because they might have implications for other large government fleet operations, there was a demonstrated need for the Treasury Board to initiate studies into all aspects of motor vehicle management, including the use of personal automobiles.

One of the findings of the Administration's study was that computer reports of operating costs, which are prepared in Ottawa once a year only, are designed solely for the needs of the Government Motor Vehicle Committee and the Treasury Board and are unsuited to Administration requirements. As a result, a number of internal, localized costing systems had been operated by the Administration, with questionable accuracy, in an attempt to provide vehicle cost data upon which effective decisions could be taken. We understand that the Administration has now introduced its own computer-prepared monthly motor vehicle report showing detailed costs by responsibility centre, location, and class of vehicle.

Another finding of the study was that an analysis of the use of trucks and special-type vehicles, which were outside the scope of the study, would be profitable. Although trucks make up two-thirds of the Administration's fleet of vehicles, apparently no study of the use of these vehicles has been made.

At March 31, 1970 the Administration owned 415 motor vehicles, which included a passenger car fleet of 98 vehicles compared with 94 at the end of the previous year. During the year 21 passenger vehicles were traded in on a similar number of new cars.

As was the case last year, some of these automobiles travelled relatively few miles. Of 51 cars which travelled under 10,000 miles during the year, 15 travelled less than 5,000 miles. The 1967 station wagon which was reported last year as not having been used from May 1968 to March 1969 continued to be unused until transferred in October 1969 to a new location where it travelled 5,500 miles by the year-end. At the same time, 21 employees were paid mileage allowances for the use of their privately-owned automobiles that were driven between 16,000 and 26,000 miles during the year.

In April 1970 a new motor vehicle management policy was introduced by the Administration which provides for a reallocation of passenger cars, effective July 1, 1970, on the following basis:

> Government-owned passenger cars being driven less than 10,000 miles per year to be replaced with private passenger cars where feasible and practical; and private passenger cars being driven more than 16,000 miles per year to be replaced with government-owned passenger cars.

157. *Transfer of works from Maritime Marshland Rehabilitation Administration to the Maritime Provinces.* In previous Reports (paragraph 166 in 1969) we have referred to the substantial costs incurred under agreements entered into in 1949 pursuant to the Maritime Marshland Rehabilitation Act, *R.S., c.175.* We stated that although the provisions of the Act indicated that Parliament had intended the Provinces to assume responsibility for operation and maintenance of the works without undue delay upon completion, they had not been required to do so. Instead, arrangements had been made for Canada to continue meeting the upkeep costs until March 31, 1970.

During 1969-70, $317,000 was expended for administration, operation and maintenance, and $1,487,000 for construction of works, charged to Votes 1 and 5 of the Department of Regional Economic Expansion. In addition, payments totalling $1,667,000 were made to the Provinces, and charged to Vote 10, to cover that portion of the upgrading program which remained uncompleted as of March 31, 1970. This fulfilled Canada's responsibility in connection with the upgrading of the Maritime Marshland Rehabilitation projects, on which a total of $29,988,000 was spent from their inception to March 31, 1970.

The text of Regional Economic Expansion Vote 10, from which the payments totalling $1,667,000 covering the uncompleted portion of the upgrading program were made, is:

> Grants as detailed in the Estimates and contributions in accordance with the terms and conditions specified in the sub-vote titles listed in the details of the Estimates.

There is no reference in the sub-votes to Maritime Marshland Rehabilitation, and as the payments totalling $1,667,000 are grants requiring the prior specific approval of Parliament, they are irregular.

The payments in connection with Maritime Marshland Rehabilitation from Regional Economic Expansion Votes 1, 5 and 10 totalled $3,471,000. However, the only reference to this subject in any of these Votes in the Estimates is an item in the further details of Vote 5 which indicates that an estimated $170,000 was to be expended on Marshland Reclamation, representing a reduction of over 50% from the previous year's estimate.

158. *Financing of the Cape Breton Development Corporation.* The Cape Breton Development Corporation was established on October 1, 1967 by the Cape Breton Development Corporation Act, *1967-68, c.6,* for the purpose of broadening the base of the economy of Cape Breton Island. In meeting its responsibilities, the Corporation is to promote and assist the financing and development of industry on the Island to provide employment outside the coal producing industry. Related steps are the acquisition of the interests of the major coal producer in the Sydney coalfield and reorganization and operation of the mines with a view to the rationalization of their coal production. These in turn are to be followed by the progressive withdrawal of the Corporation from such production in accordance with a plan which is to take into account progress in providing employment outside the coal producing industry.

The Act provides for the payment of working capital advances and capital and operating grants to the Corporation by the Minister of Finance on the requisition of the Corporation and the Minister of Regional Economic Expansion. In addition, funds for operating purposes have been paid to the Corporation under parliamentary appropriations. At March 31, 1970 the Corporation was indebted to Canada in the amount of $8 million for working capital advances. Payments other than working capital advances during the year were:

Statutory grants—	
Capital purposes	$ 6,400,000
Operating purposes	4,330,000
	10,730,000
Regional Economic Expansion Vote 35—	
Amount to be applied in payment of 1969 operating losses of coal mining and related works and undertakings and grants in lieu of taxes to municipalities	21,935,000
	$ 32,665,000

In last year's Report (paragraph 168) we referred to the acquisition on March 30, 1968, under authority of section 9 of the Act, of lands and personal property located on Cape Breton Island, and interests in land and personal property located under adjacent waters that constituted or formed part of the works and undertakings operated or carried on by Dominion Coal Company, Limited, Nova Scotia Steel and Coal Company, Limited, The Dominion Rolling Stock Company Limited, Sydney and Louisburg Railway Company, The Scotia Rolling Stock Company Limited and The Cumberland Railway Com-

pany. We pointed out that the notes to the financial statements of the Corporation's Coal Division disclosed that the cost of acquisition, if any, to be paid by the Minister of Finance out of the Consolidated Revenue Fund, under authority of section 19 of the Act, had not yet been determined and no payments had been made. A similar note formed an integral part of the financial statements for the year ended December 31, 1969. An offer of settlement in the amount of $11,000,000 has been filed by Canada in the Exchequer Court of Canada.

A firm of chartered accountants appointed by the Governor in Council is the auditor of the Corporation.

159. *Joint auditing arrangements with respect to provincial corporations financed from federal funds.* Reference has been made in previous Reports (paragraph 169 in 1969) to the appointment of the Auditor General of Canada as joint auditor with various public accounting firms of provincial corporations formed to facilitate and promote research into the utilization and development of manpower resources. Costs of these corporations, which are incorporated under provincial legislation, are borne by Canada.

The following summary shows the payments made to each Corporation by the Department of Regional Economic Expansion during the year and the cumulative payments to March 31, 1970:

	Incorporated	1969–70	Cumulative to March 31, 1970
Nova Scotia NewStart Inc.	June 29, 1967	$ 1,169,000	$ 2,607,000
Saskatchewan NewStart Inc.	August 10, 1967	900,000	1,765,000
Alberta NewStart Inc.	August 11, 1967	2,566,000	4,511,000
Prince Edward Island NewStart Inc.	August 23, 1967	900,000	1,842,000
New Brunswick NewStart Inc.	May 28, 1969	300,000	300,000
Manitoba NewStart Inc.	July 10, 1969	250,000	250,000
		$ 6,085,000	$ 11,275,000

The accounts and financial statements of each of these Corporations for their fiscal years ended on December 31, 1969 or March 31, 1970 were examined and reported upon by the joint auditors.

In the periods reported upon, which do not in all cases coincide with the fiscal year of Canada, these Corporations received grants from Canada totalling $4,586,000 and had other income of $258,000, mainly interest on bank deposits and short-term investments. In the same periods the Corporations spent $4,821,000 for operating costs and $1,134,000 for buildings, automotive equipment, office furniture and equipment, training equipment and leasehold improvements.

The joint auditor's report on Saskatchewan NewStart Inc. drew attention to non-interest-bearing loans totalling $75,000 made to New Brunswick NewStart Inc. and

Manitoba NewStart Inc. on instructions from the Department of Regional Economic Expansion with the amounts being repaid during the year. The loans were drawn to attention as there is no provision in The Saskatchewan Societies Act or in the by-laws of the Corporation for the making of such loans.

The large cash balances held by the Corporations and reported on last year have been greatly reduced as a result of an increase in operating expenditure and the Department making further advances to the Corporations only as required.

160. *Excessive charges for the supply of water to penitentiary, Cowansville, Que.* Last year (paragraph 170) we reported that the amount being paid for water at the Cowansville penitentiary was high both in relation to charges to other users in the area and to consumption and, furthermore, that the quality of the water was so inferior that the Canadian Penitentiary Service had found it necessary to install a chlorinator unit at a cost of $8,300. We also stated that in May 1969 the Treasury Board approved entry into an agreement with the Town of Cowansville for the supply of water for a ten-year period commencing April 1, 1964, the date of completion of the water main, under the minimum charge conditions ($50 per day providing for a daily consumption of 200,000 gallons) demanded by the Town. The maximum daily consumption had been 75,000 gallons or $\frac{3}{8}$ of the minimum in the summer months and 50,000 gallons or $\frac{1}{4}$ of the minimum in the winter months.

An advance payment of $25,000 on the amount of $35,750 due the Town for the period April 1, 1964 to March 16, 1966, during which time the penitentiary was under construction, was made in July 1969. The balance of $10,750 was not paid pending the Town's acceptance of a provision in the agreement for renegotiation at a more reasonable rate at the end of the ten-year period. Since the Penitentiary Service did not take over the institution from the construction contractor until March 17, 1966, the $25,000 advance payment, and the $10,750 when paid, must be regarded as non-productive.

161. *Subsidized rental accommodation, Drumheller, Alta.* Last year (paragraph 171) we commented on a leasing arrangement entered into by the Canadian Penitentiary Service to provide subsidized rental accommodation for staff of the penitentiary at Drumheller. From the dates the accommodation became available for occupancy (houses on December 15, 1967 and apartments on March 15, 1968) to March 31, 1969, rent under the lease totalled $106,000, of which $44,000 was recovered from the employee-occupants, leaving $62,000 as the amount of subsidization by the Penitentiary Service. The subsidization to March 31, 1969 would have been approximately $15,000 less if 13 of the apartments, which had remained vacant since they became available, had been occupied by penitentiary staff.

During the year rentals paid under the lease totalled $92,000, of which $45,000 was recovered from the employee-occupants, leaving $47,000 as the amount of the subsidization for the year. If 12 apartments vacant during the year had been occupied by penitentiary staff the subsidization would have been approximately $15,000 less.

162. *Work performed by inmates for penitentiary officers.* In paragraph 172 of last year's Report we drew attention to a long-standing practice of the Canadian Penitentiary Service of charging officers who have articles for their own use manufactured or repaired in the penitentiary shops, only the cost of materials plus a handling charge of 10% and five cents per hour for inmate labour. This labour rate had been established by penitentiary regulations in 1938, at which time inmates earned five cents per day, and had not been increased although the rate an inmate can earn had risen substantially since then. We had advised the Penitentiary Service in 1964 that the amount being charged for officers' custom work merited review but no change had been made in the price structure.

The subject of officers' custom work and its relation to inmate training programs was discussed in April and May 1970 by the Inter-Divisional Policy Committee of the Penitentiary Service. The Committee recommended, among other things, that the charge for inmate labour be increased to 10 cents per hour effective June 1, 1970. We were informed in October 1970 that the recommendations of the Committee had not yet been put into effect but that the necessary directive will be issued in the near future.

163. *Losses on Defence Production Revolving Fund inventories.* In previous Reports (paragraph 238 in 1969) we have referred to two potential losses on strategic material inventories financed by the Defence Production Revolving Fund.

Raw quartz crystals on hand at March 31, 1970 had a cost value of $5,923,000. However, synthetic quartz crystals have come into general use since the inventory was acquired, practically eliminating the demand for natural quartz, and sales in recent years have realized only about 25% of original cost. The estimated market value of the inventory at March 31, 1970 was $923,000.

A net shortage of $1,140,000 existed in the Fund with respect to cobalt stolen from a custodian. The custodian has agreed to reimburse the Fund $437,000 over a four-year period to July 31, 1973. The balance of $703,000 comprised a $632,000 loss sustained as a result of the decline in value of the cobalt and a $71,000 loss due to the theft.

During the year $5.7 million was provided by Supply and Services Vote 6b to reimburse the Defence Production Revolving Fund for these losses.

164. *Unauthorized use of the Defence Production Revolving Fund.* In our 1966 Report we drew attention to the improper practice of using the Defence Production Revolving Fund to finance the loan portion of the cost of purchasing machinery under the Defence Industry Modernization Program. Advances aggregating $10.4 million had been made for this purpose before the practice was discontinued on March 31, 1967.

The Fund has not yet been reimbursed for the unauthorized advances. However, repayments totalling $6.6 million have reduced the balance to $3.8 million at March 31, 1970, as compared with $6.2 million at the previous year-end. (See paragraph 174 of last year's Report.)

165. *Shared costs under research contract not verified.* In previous Reports (paragraph 175 in 1969) we noted that the Audit Services Bureau of the Department of Supply and Services had reported that it was unable to verify a claim of $49,000 for the Crown's share of the costs of a shared-cost research contract because the company which had done the work was unable to produce adequate supporting accounting records and because of the inadequacy of its internal control in the earlier years of the contract. At the time of writing our 1969 Report, the company advised the Department that it had located and assembled documents which it believed would be sufficient for audit purposes, and the Bureau was preparing to make another attempt to audit the contract.

The Bureau, although still unable to verify the claim, has reported that, based on the records produced, the company had overclaimed in respect of certain labour costs and had been overpaid $11,000. This overpayment has since been recovered and we understand the Department may amend the contract to provide for a negotiated firm price of $38,000 which will not be subject to audit verification.

166. *Limited competition for government business.* For the past three years (paragraph 74 in 1969) we have referred to the engraving and printing of postage stamps, other revenue stamps and labels, bonds, paper currency, passports and other documents and forms for the Government and the Bank of Canada. This work has been carried out almost exclusively by two Ottawa firms for many years and currently occupies most of their productive capacity. We have pointed out that limited competition for government contracts creates a risk of excessive profits at the expense of the Crown.

A study team of representatives of interested departments and agencies was established in 1968 "to develop a procedure that will provide the most economical procurement of security printing consistent with the standards of security and quality required and the viability of the two existing commercial sources". In addition, at the request of the Deputy Minister of Finance, the Audit Services Bureau of the Department of Supply and Services carried out cost audits for the year ended December 31, 1968 of all contracts between these firms and the Departments of External Affairs, Finance, National Revenue and the Secretary of State, the Post Office and the Unemployment Insurance Commission. The audits revealed that substantial profits had been made on most government contracts but these had been reduced to a moderate overall profit by a loss on contracts with the Post Office which had terminated its non-competitive contracts and had invited tenders from the two firms for five-year contracts effective January 1, 1968. No examination was made of, and as far as we are aware no specific information is available with respect to, the rate of profit on contracts with the Bank of Canada for the printing of bank notes.

The study team found that contracts generally extended over many years and were allocated to one or the other of the two firms rather than awarded on the basis of tenders. Moreover, the very limited competition that had existed was weakened by the Government's policy of equalizing business between the two firms. However, the conclusions of the study team as to the most satisfactory procurement methods and procedures were not unanimous and no decision as to future policy was made.

Last year we suggested that the procurement of security printing be centralized in the Department of Supply and Services in the same manner as the procurement of other goods, as envisaged by section 44 of the Government Organization Act, 1969, *1968-69, c.28.*

It has been decided that this Department is to be solely responsible for all security printing. During the year existing contracts for printing certain tobacco excise stamps were terminated and new tenders invited. However, the tenders remained limited to the same two Ottawa firms.

We repeat that in our opinion the interests of the Crown would be better protected if competition were broadened to include other firms in Canada and elsewhere which print money orders, bonds, share certificates, etc., requiring equally high standards of security and quality.

167. *Construction of the C.S.S. Hudson.* In October 1960 the Department of Supply and Services issued a letter of intent to the lowest bidder for the construction of a hydrographic and oceanographic survey ship for the Department of Energy, Mines and Resources. The contractor offered delivery by August 1962 and, following lengthy negotiations, the contract was signed in August 1961 in the amount of $6.5 million. Over the term of the contract the amount was gradually increased to $6.9 million to cover certain design changes and cost escalation of labour and material.

A clause in the contract provided a penalty of $750 a day from October 31, 1962 until the vessel's delivery at the shipyard fully completed because the Department of Energy, Mines and Resources planned to use the ship on an international hydrographic expedition in the Indian Ocean in 1963. The vessel was provisionally accepted by the Department of Energy, Mines and Resources on December 22, 1963 but unfortunately, due to defects and deficiencies, it did not become operational until November 1964.

In April 1964 the contractor advised the Department of Supply and Services that his costs had exceeded the contract value by some $2.5 million due mainly to design changes and delays caused by the Crown. An audit by the Audit Services Bureau in February 1966 confirmed the contractor's costs.

The contractor's request for reimbursement of his costs was then referred to the Department of Justice, the final outcome being waiver of the penalty for late delivery and an award of $575,000 by the Exchequer Court of Canada in November 1969. This amount had been offered by the Crown in September 1969. The award, which was paid during the year, was recorded as an expenditure of the Department of Supply and Services even though the Department of Energy, Mines and Resources owns the ship, had paid the contract price from its appropriations, and appears to have been responsible for much of the delay.

Departmental studies that led to the Crown's offer in September 1969 noted that there had been no clear division of responsibility between the departments involved and their agents until January 1962, with the result that there were delays in decision

making including failure to promptly resolve problems associated with the design and specification of major equipment. However, there was some doubt that these delays were significant in relation to other delays for which the contractor was responsible. In view of this background, the award of $575,000 may be described as a non-productive payment.

168. *Surplus Queen's Printer's publications.* In our 1968 Report we referred to the need for effective planning and pricing controls in the printing of government publications held for sale or free distribution, and in our 1969 Report (paragraph 176) we gave examples of the over-estimating of sales potential leading to excessive stocks on hand.

At April 1, 1969 the Queen's Printer's bulk publications store, which supplies government and commercial retail bookshops, contained some 50,000 titles and the stock on hand was valued at about $7 million retail. During the year the Publications Condemnation Board authorized the disposal of some 3,000,000 copies of publications with a retail value of about $2.5 million as surplus to sales requirements and occupying valuable storage space which could be used for other purposes. These represented 18,000 titles and were disposed of mainly as scrap paper although some titles were distributed free to educational and other organizations. The prices of a number of publications which were retained were reduced to encourage sales. The following are examples of the publications which were declared surplus:

1. *The Revised Statutes of Canada, 1952* are becoming increasingly obsolete as a ready source of reference and a new revision is being printed. Some 15,000 individual bound volumes (2,500 sets) of the Revised Statutes and 9,700 bound and 29,900 unbound volumes of the annual *Statutes of Canada* were disposed of as scrap paper. These had a retail value of $530,000. Information is not available concerning the number of these Statutes originally printed.
2. Catalogues are published for each of the several exhibitions sponsored by the National Gallery of Canada each year. During the year some 60,000 catalogues for 1966 and earlier exhibitions with a retail value of $63,000 were scrapped because demand is limited after an exhibition closes. Included were 8,400 copies of the original 10,500 catalogues ordered for the 1964 exhibition of *German Arts and Crafts* and 4,500 copies of the 6,000 copies ordered for the 1965 exhibition of *French Paintings from the Louvre.*
3. Royal Commission reports with a retail value of $199,000 were disposed of as scrap paper. Included were 6,100 copies of the *Report of the Royal Commission on National Development in the Arts, Letters and Sciences, 1949–1951* with a retail value of $4.50 each. There is no record of the quantity originally printed.
4. *The Index to Reports of the Geological Survey of Canada from 1927 to 1950* was published in 1962 with a selling price of $13.00. Some 1,200 of the 1,900 copies originally printed were disposed of as scrap paper.
5. *Arctic Canada from the Air* was published in 1957 with a retail price of $10.50. Of the 3,300 copies originally printed, some 600 copies were scrapped and 340 copies remain on hand.
6. An additional 4,900 copies of *Canadian Expeditionary Force 1914–1919* were printed in 1963 and 1964. There were 3,000 copies on hand priced at $8.50 each, of which 1,800 copies were scrapped.

7. The publication *Tuktu* dealing with the survival of caribou was published in 1965 and 13,200 copies were printed. The sale price was $2.00 per copy. There were 7,600 copies on hand of which 5,800 copies were distributed free to provincial departments of education.
8. During 1963, 3,000 additional copies of the National Museums of Canada publication *Roundelays, Dansons à la Ronde* were reprinted to be sold for $3.25 a copy. Some 1,460 of the 1,800 copies remaining on hand were distributed free to provincial departments of education.
9. Some 200,000 postcards of National Gallery of Canada reproductions and other types of postcards which were purchased mainly for the sales desk at the National Gallery were disposed of as free issue. Selling prices had varied from 5 cents to 25 cents.

The following cases illustrate how surplus stocks sometimes occur:

1. In December 1965, the Queen's Printer ordered the reprint of Volumes I, II and III of the *Official History of the Canadian Army in the Second World War*, 3,000 sets in English and 1,000 in French. Due to delays in obtaining revised maps from the Department of National Defence, these 1966 editions were not received until February 1968. In the meantime, stocks of Volumes II and III of the 1960 French edition in quantities greater than ordered for the 1966 edition were located in the bulk publications store. On hand at March 31, 1970 were: Volume II, *Les Canadiens en Italie 1943–45*, 1,335 copies of the 1960 edition and 969 of the 1966 edition; Volume III, *La Campagne de la Victoire*, 1,650 copies of the 1960 edition and 906 of the 1966 edition. The selling price is $9.50 for Volume II and $9.00 for Volume III.
2. In March 1966, 56,000 art reproduction posters were purchased at a cost of $8,400. The posters were acquired at the suggestion of the Canadian Broadcasting Corporation and were to be sold in connection with a series of art appreciation programs prepared by the Corporation. The programs were never presented and there has been no demand or use found for the posters.

169. *Errors in salary payments by the Central Pay Division.* The Department of Supply and Services is responsible for the verification of documentation and the calculation of the pay of the majority of federal public servants. Some 160,000 persons are paid by the Department's Central Pay Division in Ottawa and some 70,000 by various other paying offices of the Department.

Prior to 1968-69 our examinations at the Central Pay Division indicated that the systems and procedures in use had been operating in a satisfactory manner. However, in 1968-69 our examinations indicated that the Central Pay Division had been unable to cope with the increased workload resulting from the advent of collective bargaining. As a consequence the error rate had risen to an unacceptable level and it was obvious that the development of a more automated system, then being planned, should be speeded up to realize the full potential of computer techniques as soon as possible and that the introduction of an internal audit completely divorced from the Central Pay Division routine, which was under consideration, should be effected without delay. (See paragraph 178 of our 1969 Report.)

In 1969-70 our examination disclosed fewer errors in regular current salaries but there were still a considerable number of errors in retroactive salary adjustments and in

statutory deductions. Improvements have been made in staff training and progress is being made in the development of a more automated system. We understand that proposals for a new pay system shortly to be placed before the Treasury Board include provision for an internal audit independent of the normal processing routine.

170. *Errors in Public Service Superannuation Account pension and contribution calculations.* In our Reports to the House for the past nine years (paragraph 179 in 1969) we have pointed out that our annual test audit of the superannuation accounts continued to disclose a high incidence of error in the pension and contribution calculations. The Public Accounts Committee has recorded its concern that the matter was taking so long to be corrected and requested the Auditor General to continue to keep the Committee fully informed (see Appendix 1, item 6). Last year we noted that procedures designed to verify the employee's contributions in relation to his salary and the documents on file, along lines long recommended by the Audit Office, had not achieved the desired results primarily because the salary, services and contributions information relied upon in the verification procedures continued to include estimated figures. A computer program was introduced on April 1, 1969 to identify differences between payments and the related estimates, and an initial problem with this program in the early months of the year has since been overcome.

Our test audit in 1969-70 disclosed little change in the incidence of error. During the year new staff training methods were introduced, as recommended in a departmental management survey report, and the internal audit is being improved and separated from the normal processing procedures, as has been recommended by the Audit Office for a number of years.

171. *Improper accounting for revenue.* Transport Vote 30, which provided for administration, operation and maintenance costs of Air Services, also authorized the spending of revenue up to an amount of $36,243,000.

At major airports the Department of Transport operates public car parking lots which are managed by agents who are under contract. Although there are differences in the bases of compensation for these services, most contracts provide for the payment of actual labour costs, within specified limits, plus a management fee. Revenue from these operations is deposited intact to the credit of the Receiver General while operating expenses and the management fee are paid by cheque drawn on the Receiver General.

As indicated in last year's Report (paragraph 181), the accounting procedures followed with respect to the revenue and expenditure arising from these operations include the temporary accumulation of the revenue in suspense accounts. During the year the remuneration of $240,000 paid to the agents at seven airports was recorded as a charge to these accounts. The same procedure was followed with respect to an outlay of $31,000 at two airports for parking lot equipment. In the same manner, a fee of $12,000 with respect to the collection of landing and parking fees for unscheduled and itinerant aircraft at one of the major airports was met from the fees collected.

The result of these costs being charged to the suspense accounts, to which associated revenue had been credited, instead of being included in the expenditure totals of the Department, was that the expenditure for the year was understated, and the year's revenue total was also understated because it reflected only the net revenue after the expenses referred to had been deducted. We remain of the opinion that this accounting procedure cannot be considered satisfactory as it not only resulted in the understatement of both the year's revenue and expenditure but also permitted the spending authority to be exceeded without this being apparent. If the revenue and expenditure had been recorded on a gross rather than a net basis, the expenditure from Vote 30 would be shown as exceeding by $61,000 the amount made available by appropriation.

172. *Method of financing construction and acquisition of ferry vessels for the Prince Edward Island Ferry Service.* In paragraphs 54 and 210 of this Report we refer to the practice of recording as revenue-producing assets certain amounts provided to Crown corporations and others which do not have the means to repay them. The Public Accounts Committee is of the opinion that "expenditures of this type are not loans or advances which can or should be regarded as revenue-producing assets but are in fact grants and should be charged directly to budgetary expenditure in the Public Accounts of Canada". (See Appendix 1, items 7 and 22.) Notwithstanding this, the practice has now been extended to the Department of Transport with respect to the acquisition of vessels for the Prince Edward Island Ferry Service.

Vote L107b, Appropriation Act No. 1, 1969, *1968-69, c.23,* authorized loans in 1968-69 and subsequent fiscal years in the amount of $16,000,000, on such terms and conditions as the Treasury Board may approve, for the construction and acquisition of ferry vessels and related equipment. No indication was given as to whom the loans were to be made.

In March 1969 the Department of Transport acquired a second-hand ferry vessel, renamed the M.V. Lucy Maud Montgomery, at a cost of $4,035,000, which was charged to a loan account. In 1969-70 additional charges relating to the acquisition of this vessel, $993,000 for duty and $453,000 for conversion costs, increased the charge to the loan account to $5,481,000.

In November 1969 the Department was authorized to enter into a contract for the construction of two vehicle and passenger ferries at an estimated cost of $10,636,000. During the year the loan account was charged with $407,000, comprising $307,000 for progress payments under the construction contract and $100,000 for payments to the naval architects for the design of, and professional services with respect to, the new vessels.

The Department intends to amortize the cost of each vessel over a 20-year period, commencing when the vessel enters service, by means of an annual charge to the Prince Edward Island Ferry Service Deficit.

The M.V. Lucy Maud Montgomery entered service in June 1969 and an amount of $582,000 was charged to the 1969 Deficit which was covered by Transport Vote 15.

Of this amount, $416,000, being interest for a period of one year on the advance from the loan account for the acquisition and conversion of the vessel, was credited to the Department's Non-Tax Revenue account "Return on Investments", and $166,000, being the amount allocated to amortization of the cost of the vessel, was credited to the loan account. The Department's calculation of the amount required in 1969-70 for amortization of the cost of the vessel was $126,000 but $166,000 was charged to Vote 15 to use the surplus funds in that Vote, thus reducing these to $13 which lapsed. This practice not only gives wrong information concerning the actual deficit of the Prince Edward Island Ferry Service in the year but weakens parliamentary control over government spending.

173. *Indirect subsidy for replacement of municipally-owned ferry vessel, Prince Rupert, B.C.* In our 1969 Report (paragraph 183) we drew attention to the agreement between the Department of Transport and the City of Prince Rupert under which the City has been operating a departmental vessel to provide a ferry service for departmental employees between the City and the airport on nearby Digby Island. The agreement, effective August 16, 1961 and subsequently extended for successive two-year terms, called for payments by the Department to the City at the rate of $12,000 per annum, increased to $26,000 per annum effective August 16, 1965. However, if in any year the operation of the departmental vessel, and one owned and operated by the City in the same service, jointly produced a surplus, such surplus, up to the amount of the Department's payment in that year, was to be paid to the Department.

While an undertaking by the City to provide an annual financial statement prepared by an independent auditor was not carried out, statements certified by a civic official covering the period August 16, 1961 to December 31, 1967 showed there had been an operating loss for each year to December 31, 1965 and surpluses of $59,200 in 1966 and $23,300 in 1967. The City transferred both surpluses, including $49,300 which under the agreement it was obligated to repay to the Department, to a reserve for the replacement of the municipally-owned ferry, and indicated its intention to continue this practice. It was the Department's view that its payments need not be recouped because they were less than it would cost it to operate its ferry and to pay for the transportation of vehicles and personnel on the City's ferry, for which no charge was being made.

In 1968 and 1969 the operation produced surpluses of $42,400 and $63,000 respectively. Although the Department paid $26,000 to the City for each calendar year, the agreement has not been extended beyond August 15, 1969. Accordingly $16,200 of the amount paid in 1969 may be considered as applicable to the agreement which expired on August 15, 1969 and $9,800 to an agreement to be completed for the ensuing year.

Thus a total of $91,500 was owing to the Department with respect to the surpluses from operations for the period January 1, 1966 to August 15, 1969 and retention of this amount by the City for the purpose intended constitutes a grant-in-aid which, if it is to be allowed to stand, requires parliamentary sanction.

174. *Subsidization of accommodation and messing for single employees, Gander, Nfld.* In our 1969 Report (paragraph 188) we referred to an agreement entered into by the Department of Transport with a hotel operator in November 1961 for the provision of 60 furnished and serviced rooms, and meals, in order to alleviate a shortage of suitable accommodation for its single employees at Gander. We pointed out that although the annual cost to the Department during the first six-year term was $2,000 per person, the employee had been assessed only $900 per annum (increased to $960 in July 1967), so that the Department was providing an annual subsidy of $1,100 per person. In 1968 under a renewed and amended agreement for a two-year term for 45 employees, the annual cost per individual increased to over $3,000 while the charge to the employee remained at $960, so that the Department's annual subsidy increased to over $2,000 for each employee—a total of about $93,000 per annum. We suggested that the basic amount being assessed against the employees was inadequate.

During the year the agreement was extended for a period of six months, to July 15, 1970, in order that the Department could conduct negotiations with the hotel operator and investigate a completely new arrangement for accommodation and board. The charge to employees remained at $960 throughout the year but was increased to $1,200 effective April 1, 1970.

Subsequent to the year-end the agreement was further extended to September 30, 1971 but the Department indicated that employees, other than trainees, assigned to Gander subsequent to October 1970 are not to occupy subsidized accommodation and that the charge to employees presently occupying such accommodation was to be increased to an annual rate of $1,500 effective October 1, 1970 and $1,800 effective April 1, 1971. For trainees, the vast majority of whom are assigned to air traffic control work, the Department is to continue to provide subsidized accommodation charging only $1,500 per annum in order that the departmental training program will not be affected. As a result of these changes, the departmental estimate of its subsidy for the year ending September 30, 1971 is $65,000.

175. *Additional cost of lighthouse, Prince Shoal, Que.* In 1962 the Department of Transport entered into a contract at a lump sum price of $497,000 for the construction of a pier and superstructure for a lighthouse at Prince Shoal. The contract called for a caisson in the form of a steel crib with a concrete bottom to be sunk into position by the Department before construction of the pier could commence.

The contract specified a completion date in November 1962. However, unexpected difficulties in the construction of the pier arose and the contractor asked, at the end of the 1962 construction season, that the lump sum contract be replaced with a cost plus fixed fee contract. A recommendation to this effect by the Department was not acceptable to the Treasury Board, but the Board did agree to compensate the contractor for additional costs for which the Crown was morally responsible.

With this understanding the contractor continued the work to completion in March 1964 and was paid $640,000, which included an amount of $143,000 for additional work.

In November 1964 the contractor submitted a claim for additional costs in the amount of $574,000. Following a review of this claim, including an audit of the contractor's accounts which established a balance of unpaid costs of $510,000, an amount of $159,000 was offered in 1966 in full and final settlement. The offer included $100,000 for changes in the scope of the work. Of the balance, an amount of $45,000 represented additional costs incurred during the 1962 construction season which were attributed to delay caused the contractor when unforeseen tidal currents at depth caused the caisson, when being placed in position by the Department, to be rotated in such a manner that his approach to the caisson at slack water was limited to twice instead of four times a day.

The offer was refused by the contractor and in November 1967 a Petition of Right was served against the Crown in the amount of $704,000. Subsequent negotiations resulted in the claim being settled out of court. The contract was increased by $300,000 and payment was made in September 1969, bringing the total cost to $940,000.

176. *Additional cost due to interruption of dredging operations.* In July 1967 the Department of Transport entered into a contract at an estimated cost of $943,500 for capital dredging in the Verchères-Contrecoeur Channel of the St. Lawrence River.

A few weeks after the project commenced in August 1967 the Municipality of Contrecoeur remonstrated that its domestic water supply had been contaminated, as a result of the dredging operations, to the point of rendering it undrinkable and threatened legal action to have the project stopped. The Department, with the concurrence of the contractor, authorized suspension of the dredging operations on September 26, 1967, until the Municipality could construct a proposed new filtration plant.

Dredging operations were resumed in the spring of 1969, the new filtration plant having been in operation since December 1968, and the contract was completed at a cost of $1,028,700, including an additional cost of $30,500 paid to the contractor for the removal of his equipment from the site in the autumn of 1967 and for its reinstallation at a later date.

177. *Awards under the Pension Act.* In previous Reports (paragraph 191 in 1969) we have referred to recommendations in the Eighth Report 1964-65 of the Public Accounts Committee which were designed to overcome shortcomings in the Pension Act, *R.S., c.207,* (see Appendix 1, item 11). These shortcomings made it difficult to determine whether or not certain awards were in conformity with the provisions of the Act, particularly those awards granted on a discretionary or compassionate basis and to persons in a dependent condition.

We also pointed out that clarification of certain sections of the Pension Act was particularly necessary because the usual checks provided for the protection of the Crown did not operate with respect thereto. Subsections (1) and (5) of section 5 read as follows:

> (1) Subject to the provisions of this Act and of any regulations, the [Canadian Pension] Commission has full and unrestricted power and authority and exclusive jurisdiction to deal

with and adjudicate upon all matters and questions relating to the award, increase, decrease, suspension or cancellation of any pension under this Act and to the recovery of any over-payment that may have been made; and effect shall be given by the Department [of Veterans Affairs] and the Receiver General to the decisions of the Commission.

(5) The Commission shall determine any question of interpretation of this Act and the decision of the Commission on any such question is final.

Not only is the Department of Veterans Affairs, in fulfilling its functions with respect to the payment of pensions and recovery of overpayments, thus barred from taking its normal part in protecting the Crown but the advice of the Department of Justice is not available in the interpretation of the conflicting provisions of the Act.

The Woods Committee, which was appointed by the Minister of Veterans Affairs to survey the organization and work of the Canadian Pension Commission including the interpretation of such sections of the Pension Act as in the opinion of the Committee should be considered, issued its report on March 22, 1968. The Committee's recommendations for the most part were concerned with the provision of greater benefits and no mention was made of the recommendations of the Public Accounts Committee. The White Paper on Veterans Pensions, issued by the Minister of Veterans Affairs on September 9, 1969, dealt only with the recommendations in the Woods Committee report and, although it recognized the need for further study of the Pension Act, its proposals did not deal directly with the recommendations of the Public Accounts Committee.

The Public Accounts Committee in May 1969 considered the comments by the Minister of Veterans Affairs with respect to its earlier recommendations but it made no further recommendation.

The Second Report of the Standing Committee on Veterans Affairs, on the survey of the organization and work of the Canadian Pension Commission, was presented to the House on June 22, 1970. The recommendations contained in the report included reference only to one matter which had been the subject of a recommendation of the Public Accounts Committee. This was the reference to section 25 of the Act pertaining to pensions granted on discretionary or compassionate grounds. The Committee recommended that section 25 of the Pension Act remain in its present form, that the Canadian Pension Commission make fuller use of section 25, and that, in the applications under section 25, the calibre of service of the applicant need not necessarily be a factor and the person on whose behalf application was made need only meet the ordinary standards of service. These recommendations appear to run contrary to the recommendation on section 25 of the Act made by the Public Accounts Committee.

178. *War veterans allowances.* In prior years' Reports (paragraph 192 in 1969) we have drawn attention to the Public Accounts Committee's Eighth Report 1964-65 (see Appendix 1, item 12), in which it recommended that in the administration of the War Veterans Allowance Act, *R.S., c.340,* all cases of deliberate deception in respect of awards under the Act be prosecuted and that where the presence of a child is the reason for an award at married rates, the income of the child, unless exempted by the Act, be taken into account in determining the amount of the award.

As a veteran's entitlement to an allowance varies directly with his annual income, overpayments which are beyond the control of the Department of Veterans Affairs continually occur. When detected, the majority of these are recovered from future allowances. If the allowance has been terminated the Department tries to effect recovery from other sources. The known outstanding overpayments at March 31, 1970 amounted to $3.9 million.

One of these overpayments which amounts to $11,000 is described in departmental files as "the most flagrant case of WVA overpayment on our records, and clearly is one where willful fraud is involved". This case had been referred to the Department of Justice in May 1969 for the initiation of legal proceedings. Fourteen months later, in July 1970, a Regional Director of the Department of Justice wrote to the Director of Legal Services of the Department of Veterans Affairs stating that there appeared to be ample evidence that a fraud had been committed under the Criminal Code but because of the delay which had occurred in instituting proceedings, for much of which he assumed responsibility, "it might be suggested to the Department of Veterans Affairs that the whole matter be reconsidered". The proceedings were abandoned and we are informed that the decision was based "partly on the advice of the Department of Justice, partly on our belief that Parliament intended offences under the Act to be prosecuted promptly (War Veterans Allowance Act provides for one year limitation) and also because a prosecution when the facts leading to it are stale would be contrary to public interest".

We understand that the Department is giving consideration to other possible means of effecting at least partial recovery.

179. *Federal-provincial shared-cost programs.* Although information regarding Canada's contribution towards each sizable federal-provincial shared-cost program is available in Volume II of the Public Accounts in the details of expenditure of the departments administering the contributions, there is no consolidation showing the substantial overall total of federal contributions to these programs. In previous Reports (paragraph 194 in 1969) we expressed the view that it would be informative to the House if a detailed summary of the numerous federal-provincial shared-cost programs, showing the federal share of the costs, were more readily available, and suggested that this be included as an appendix to the Public Accounts. This suggestion has not yet been considered by the Public Accounts Committee.

Canada participated with one or more of the provinces in 90 shared-cost programs in 1969-70 as compared with 104 reported in 1968-69 as follows:

	1969–70	1968–69
Costs shared with:		
All provinces	22	22
More than one but not all provinces	36	44
Only one province	32	38
	90	104

The decrease of 14 programs reflects the completion or discontinuance of 17 for which the costs were shared in 1968-69, the elimination of five which are not considered to be true shared-cost programs and the commencement of eight new programs in 1969-70.

The federal expenditures under these programs totalled $1,751 million in 1969-70 compared with $1,510 million in 1968-69 and $1,328 million in 1967-68. A listing of expenditures by departments, under these programs, with comparable figures for the previous year, appears as Appendix 2 to this Report. These expenditures represent direct costs only and do not include federal administrative expenses.

Not included in the total expenditures are tax abatements and tax equalization payments of $470,185,000 in 1969-70 and $426,676,000 in 1968-69 to the Province of Quebec following its election in 1965 under the Established Programs (Interim Arrangements) Act, *1964-65, c.54,* to wholly administer and finance certain standing programs. These programs are hospital insurance and diagnostic services, Canada Assistance Plan, disabled persons allowances, old age assistance, blind persons allowances, unemployment assistance and certain aspects of general health grants.

In addition to the expenditures shown under Secretary of State for post-secondary education, there were tax abatements and tax equalization payments to all provinces relating to post-secondary education, totalling $336,517,000 in 1969-70 and $277,937,000 in 1968-69.

Expenditures on all programs are the subject of test audit by the Audit Office, the extent of the test in each case being determined by the nature of the program and the scope of the audits carried out by the provincial auditors prior to the submission of claims and by the Audit Services Bureau of the Department of Supply and Services in those cases where the Bureau is requested to carry out examinations. Many of the programs are complex and their terms subject to varying interpretations and applications. Because of this, and the fact that the programs comprise a major portion of Canada's total contribution, provincial records are examined by regional representatives of this Office annually in connection with all programs coming under the jurisdiction of the Department of National Health and Welfare excepting the newly introduced medical care program, all programs coming under the Department of Manpower and Immigration and the agricultural and rural development program under the Department of Regional Economic Expansion. No examinations of provincial records are made in respect of expenditures on the remainder of the listed programs; all claims and supporting documentation relating to these programs are examined by us at the departmental offices responsible for their administration, reliance being placed on the audit certificate given by the provincial auditors as to the validity and correctness of the charges and on the direct examinations made of many of these programs by the Audit Services Bureau.

180. *Statements requested by the Public Accounts Committee.* Included in section 10, "Appendices", of Volume I of the 1970 Public Accounts are four statements prepared by the Receiver General for Canada showing additional information recommended for inclusion in the Public Accounts by the Public Accounts Committee in its Ninth Report 1964-65. The attention of the House is directed to these statements.

1. EDUCATIONAL LEAVE COSTS GRANTED UNDER SECTION 57 OF THE PUBLIC SERVICE TERMS AND CONDITIONS OF EMPLOYMENT REGULATIONS—Appendix No. 14, page 10.30

   It will be noted from this statement that for 1969-70 the total costs in respect of 406 employees amounted to $1,813,000. This compares with 506 employees and $1,503,000 in the previous year and 497 employees and $1,111,000 in 1967-68.

2. LOSSES OF $1,000 OR MORE DUE TO ACCIDENTAL DESTRUCTION OF, OR DAMAGE TO, ASSETS WHICH WOULD NORMALLY BE COVERED BY INSURANCE HAD SUCH COVERAGE EXISTED—Appendix No. 15, page 10.31

   This statement shows that such losses amounted to $1,816,000 in 1969-70. The comparable amount in the previous year was $1,452,000.

3. REPORT OF SURPLUS MATERIAL DISPOSED OF IN 1969-70—Appendix No. 16, pages 10.32 and 10.33

   A comparative summary of the surplus material disposed of in 1969-70 and in 1968-69, subject to the footnotes shown on the statements in the Public Accounts for those years, follows:

	1969–70		1968–69	
	Cost	Value obtained	Cost	Value obtained
Surplus but serviceable	$ 28,030,000	$ 1,619,000	$ 37,771,000	$ 3,435,000
Obsolete but serviceable	25,632,000	1,288,000	12,265,000	368,000
	$ 53,662,000	2,907,000	$ 50,036,000	3,803,000
Surplus but repairable		3,318,000		3,086,000
Scrap		1,417,000		1,141,000
		$ 7,642,000		$ 8,030,000

4. SUMMARY OF ACCOUNTS PROPERLY CHARGEABLE TO THE FISCAL YEAR 1969-70 BUT CARRIED OVER TO THE FISCAL YEAR 1970-71—Appendix No. 17, pages 10.34 to 10.36

   This statement is commented on in paragraph 51 of this Report.

181. *Losses through the fraud, default or mistake of any person.* Section 70(1)(e) of the Financial Administration Act requires the Auditor General to report annually to the House of Commons every case in which he has observed that there has been a deficiency or loss through the fraud, default or mistake of any person.

During the year 87 losses totalling $77,592 were noted resulting from defalcations or other fraudulent acts of public officers, of which $37,145 was recovered, leaving net losses of $40,447. These are summarized as follows:

	Number	Initial loss	Recoveries	Net loss
External Affairs	1	$ 2,755	$ 2,371	$ 384
Indian Affairs and Northern Development	1	308		308
Manpower and Immigration	1	146	146	
National Defence	4	1,098	165	933
National Revenue—				
Customs and Excise Division	2	6,990	454	6,536
Transport	1	1,528	609	919
	10	12,825	3,745	9,080
Post Office	77	64,767	33,400	31,367
	87	$ 77,592	$ 37,145	$ 40,447

The Post Office losses are chargeable to the Post Office Guarantee Fund and the other losses to the Public Officers Guarantee Account. None of this latter group had been charged to the Account at the year-end and only the External Affairs and Manpower and Immigration losses of $2,755 and $146 respectively have been reported in the Public Accounts for 1969-70, as required by section 98(3) of the Financial Administration Act.

A net amount of $2,901 remaining from seven fraudulent losses reported by us in prior years had not been charged to the Public Officers Guarantee Account at March 31, 1970 and, in fact, three of these, totalling $952, have never been reported in the Public Accounts. The oldest, amounting to $1,524, occurred in 1954-55.

In addition to losses involving public officers, there are inevitably, in the administration of the numerous and complex programs of the Government, many deficiencies through the fraud, default or mistake of individuals outside the Public Service. These, when encountered in our test examinations, are brought to the attention of the administering department and, where significant, are commented on in our Report. (For examples, see paragraphs 122 and 178 of this Report.)

182. *Non-productive payments.* The Public Accounts Committee in its Fifth Report 1961, and again in its Sixth Report 1964-65, requested the Auditor General to include in his annual Report to the House of Commons any non-productive payments that came to his attention during the course of his annual audit.

Since 1961, in compliance with this request, there have been included in the Auditor General's annual Report details of non-productive payments that came to our attention during the course of the audit. Again this year we have sought to point out the underlying causes, particularly where the circumstances appear to have been beyond the control of the department or agency to whose appropriation the charge was made.

The total of the non-productive payments this year is estimated at $4,174,000. Many of these originated in prior years but in most cases a payment was made in 1969-70. Of these cases, 22 have been described in the foregoing paragraphs while the remaining 19 are as follows:

1. ADDITIONAL COST DUE TO DELAY IN AWARDING CONTRACT, OHSWEKEN, ONT. In February 1968 the Department of Indian Affairs and Northern Development called tenders for the construction of a water treatment plant for the Village of Ohsweken, Six Nations Indian Reserve. The seven bids received were opened on March 1, 1968, the lowest being $104,500.

   Award of the contract was delayed pending adoption of a formal departmental policy for the financing of such installations. When it was decided in May 1968 that the project should proceed, the sixty-day period during which a tenderer is bound to enter into a contract if his offer is accepted had expired and the low bidder was no longer in a position to undertake the work. Treasury Board authority was obtained in July 1968 to award the contract to the second lowest bidder and construction was completed during 1969-70 at a cost of $112,500, reflecting a non-productive outlay of $8,000.

2. COST OF UNSATISFIED SERVICE CONTRACT, OTTAWA. In July 1965 a letter intended to serve as a contract was prepared in the Department of Indian Affairs and Northern Development. It provided for payment of $5,000 to a departmental official for assistance in making a comprehensive study and then formulating a detailed plan for an Indian leadership training program. The study was to commence on August 10, 1965, the day following the effective date of the official's resignation. Ten per cent of the contract amount was to be withheld until a completed report was received.

   Payments totalling $4,500 were made to the former employee in 1965 and 1966, but attempts by the Department to secure the report were unavailing. During 1969 the purposes of the contract were met at a cost of $15,000 for fees and expenses under an agreement with another consultant.

3. COSTS ARISING FROM CANCELLATION OF LEASE. In March 1967 the Treasury Board authorized the Department of Industry, Trade and Commerce to lease accommodation for the Canadian Government Travel Bureau in Hartford, Connecticut, for a three-year period ending on June 30, 1970 at an annual rental of US $9,890. The lease contained a renewal clause for two additional years with one year advance notice to be given prior to expiry of the lease. This option was exercised on April 21, 1969.

   In March 1970, some twenty-seven months before the lease was to expire, the Department decided, because of budgetary and staff restrictions announced by the Government and marketing developments in the travel field, to close the Hartford office, the least productive of the Travel Bureau offices in the United States.

   An agreement approved by the Treasury Board was reached with the landlord whereby the Department obtained a release from its obligations under the lease by paying a penalty of US $5,770, the equivalent of seven months rent, and by giving up title to the fixtures attached to the building, the counter and the carpeting having an original cost of approximately $2,500.

4. COST OF STOPPING DEMOLITION OF HISTORICAL BUILDING, OTTAWA. In March 1968 the National Capital Commission advised the Department of Public Works that it was interested in a historical Crown-owned stone building near Sussex Drive, Ottawa, which was being administered by that Department and asked to be notified if and when the building was to be disposed of. Accordingly, the Department wrote in July 1968, with a

follow-up in December, stating that the building would soon be vacated and asking for instructions. Commission staff, apparently without reference to previous correspondence, replied stating that the Commission "has no interest in the building and would not object to its demolition". However, after demolition had actually started in August 1969, the Commission renewed its original interest in preserving the building and obtained an Order in Council transferring the property to it. This resulted in a non-productive cost of $3,850 which was paid to the Department to reimburse it for the amount paid to close out the demolition contract.

5. EXTRA COSTS ASSOCIATED WITH THE CONSTRUCTION OF AN UNDERGROUND LABORATORY BUILDING, OTTAWA. In December 1967, Defence Construction (1951) Limited awarded a contract in the amount of $121,000 for the construction of an underground laboratory building for the Defence Research Board. Knowing that the water table was high at the site chosen, the design authority of the Department of National Defence specified that the walls and base slab were to be waterproofed using a cold-process method and drainage was to be provided by sub-floor tiles running through a gravel base to a sump and pump located in the building. Backfill was specified to be the native soil, a heavy clay with high moisture-retention qualities, and no provision was made for an exterior drainage system, the design authority being convinced that an adequately waterproofed wall would withstand the water pressure.

Following completion of the walls in May 1968 water leaks were noticed and, when adjustments to the waterproofing failed to prevent the leaks, consultants were engaged to report on the cause and to make recommendations to prevent their recurrence. While the consultants' report on the cause of the failures was inconclusive, they recommended that a hot-process waterproofing method be employed and this, combined with the decision to install weeping tile around the perimeter of the building and to use a permeable gravel backfill, satisfactorily solved the problem. The cost of this remedial work, $28,500, was assumed by the Crown because it resulted from changes in specifications. The non-productive portion of this expenditure is estimated to be $17,600.

6. ADDITIONAL COSTS DUE TO FAULTY SPECIFICATIONS, HALIFAX, N.S. In June 1967 Defence Construction (1951) Limited awarded a contract at a firm price of $1.1 million for the construction of a building to house a fleet club to provide mess and recreational facilities, limited overnight accommodation and storage for the personal effects of seamen serving in naval vessels operating out of Halifax.

Subsequent to initial acceptance of the building in November 1968, rain water was found to have penetrated the brickwork of the second storey. This was attributed to faulty specifications and to some extent faulty workmanship. The contractor was instructed to remove and replace this brickwork giving effect to certain changes in flashing and venting specifications. The Crown's share of the remedial cost was $16,600 of which $15,000 may be considered non-productive.

7. COST OF UNUSED ACCOMMODATION, NEW GLASGOW, N.S. In August 1966 the Department of National Defence entered into a five-year lease for accommodation for a recruiting detachment at a rental of $4,800 per annum. Because of a change in the recruiting organization of the Department, the detachment was closed in September 1968. Between that date and June 1969 the accommodation was used periodically by a mobile recruiting unit and for a three-month period by a charitable organization free of charge.

After unsuccessful attempts to sublet the premises the Department gave the lessor a cash settlement of $8,000 for the remaining 26 months of the lease, bringing the cost of the accommodation for the period when it was not used by the Department to $9,500

8. COST INCURRED BY ACCEPTING FAIRING NOT MANUFACTURED TO SPECIFICATIONS. In May 1969 the Department of Supply and Services awarded a contract at a firm price of $11,000 for the supply of fairing to be fitted to tow-cables used on ships of the Department of National Defence.

On delivery in August 1969 the Department of National Defence discovered that the contractor had supplied fairing that was too large for the winch on which the faired cable was to be wound. The Department decided to accept the fairing after having received an estimate of $2,500 to modify the winch in the Department's ship-repair unit and negotiating a $2,500 reduction in the supply contract. This reduction was subject to a downward adjustment should the final cost of modifications be less than $2,500.

As the actual cost was $7,000, the Department incurred additional costs of $4,500 by accepting fairing that was not manufactured to specifications.

9. INCREASED CONTRACT COSTS DUE TO DELAYS AND PLANNING CHANGES. In January 1967 the Governor in Council authorized the National Harbours Board to enter into a contract for the installation of radar equipment for Montreal Harbour in the amount of $259,000.

After the contract was awarded the control of navigation in Montreal Harbour was transferred from the Board to the Department of Transport, resulting in changes and delays in completion of the contract. A building to house certain equipment was not completed on time and the island on which a satellite station was to be erected was found to be unsatisfactory, necessitating the location of the station on another island. These delays extended the completion of the work, the bulk of it being performed in 1968 and 1969 instead of in 1967 as originally scheduled. This, together with the addition of certain extra items, increased the cost to $316,000, which included $12,000 for escalation of labour costs and $5,000 for interest on delayed payments in accordance with the terms of the contract.

10. COST OF CORRECTING INCOME TAX NOTICE FORMS. Section 47A of the Income Tax Act, *R.S., c. 148*, provides that "the Minister may, with the approval of the Governor in Council, enter into an agreement with the government of a province to provide for tax transfer payments and the terms and conditions relating to such payments".

In 1969, in anticipation of a prescribed rate of 35% for the tax transfer to the Province of Quebec, the Department of National Revenue, Taxation, authorized the printing of notices to be sent to employees resident in Quebec who were employed outside the Province. By the time it was realized that the rate of 39% would be in effect for 1969, 208,500 copies of the notices had already been printed and 9,000 of these mailed to taxpayers.

The Department had the notices reprinted at a cost of $900 indicating the 39% rate. Amended notices along with explanatory sheets were sent to recipients of the original notices at an estimated cost of $300 for postage bringing the non-productive expenditure to $1,200.

11. ADDITIONAL COSTS AS A RESULT OF PLANNING CHANGES, MONTREAL, QUE. In 1965 the Department of Public Works engaged a firm of architects to design, prepare working drawings and specifications for, and subsequently supervise construction of, an office building in Montreal to accommodate the Distribution Branch of the National Film Board. In our 1967 Report reference was made to the decision that a structure providing twice as much space as originally contemplated was required. As a consequence the consultants were paid $2,745 as compensation for the preparation of preliminary drawings that had to be abandoned.

Early in 1969 a contract for the construction of the building was awarded in the amount of $3,066,000, and by the end of 1969-70 the contractor had been paid $2,663,000 and the consultants had received a total design fee of $136,000.

This total design fee included, in addition to the $2,745 paid for the abandoned drawings, further fees totalling $21,000 received by the consultants in 1969-70 for revisions to plans and specifications. These additional fees included an amount of $13,000 for changes associated with decisions to undertake the project in three phases rather than one and to cancel the provision made for the ultimate addition of another two floors. The remaining $8,000 related to modifications necessitated by reorganization of the National Film Board after the final plans had been approved.

12. ADDITIONAL COST DUE TO CONSTRUCTION DELAY, BURLINGTON, ONT. In September 1968 the Department of Public Works, on behalf of the Department of Energy, Mines and Resources, awarded a contract in the amount of $337,000 for dredging and hydraulic fill at the Canada Centre for Inland Waters, Burlington.

During the course of the work the contractor encountered debris, which had evidently been dumped from scows by parties unknown, and which was not indicated in the contract documents. He claimed that the debris created a substantial slow-down in progress and also damaged the hydraulic dredge, resulting in additional delay. In January 1970 the Department of Public Works paid him $19,400 as compensation for the delay and $4,100 in respect of the damage to the equipment. These amounts together with other extras to the contract, largely for additional dredging, brought the final cost of the project to $439,000.

13. COST OF PLANS ABANDONED AS A RESULT OF DESIGN CHANGES, WALKERTON, ONT. In 1965 consultants were engaged by the Department of Public Works to carry out architectural services in connection with the proposed construction of a two-storey building with a basement, to house several departments at Walkerton.

The need for additional soil testing at the site acquired for the building was pointed to by the consultants when submitting the preliminary drawings for approval. As there was some urgency, the Department instructed the consultants to proceed with working drawings and at the same time it undertook additional soil tests. These indicated a high water table and low soil-bearing value and in the light of this information the consultants were directed to develop plans for a single-storey building without a basement. An amount of $10,400 was paid to the consultants in 1967-68 and 1968-69 for plans for the original concept that were abandoned when 70% completed.

14. UNUSED PLANS FOR MALTON POST OFFICE, MISSISSAUGA, ONT. In 1965 architects were engaged by the Department of Public Works to design, prepare working drawings and specifications for, and supervise construction of, a post office building at Malton. In 1967-68 the consultants were paid $9,500 of which $8,400 represented the design fee on an estimated construction cost of $255,600 and the balance compensation for a sketch plan of a two-storey building and for additional copies of the drawings and specifications.

Meanwhile it had been found that the site acquired during 1966 was not considered by the Municipality to be adequate. Build-lease tenders were called in March 1968 in an attempt to meet the urgent accommodation requirement, but no bids were received nor were subsequent negotiations with entrepreneurs successful. It was decided to revert to Crown construction, and for that purpose authority was obtained in December 1968 to purchase municipal land immediately adjoining the existing Crown-owned property in order to provide an acceptable site.

With a view to effecting economies, the consultants were requested early in 1969 to redesign the building under a new commission. Construction was completed during 1969-70 at an actual cost of $157,000, with the architects receiving the full fee of $8,600 thereon, which was additional to the $9,500 paid previously in respect of the abandoned concept.

15. COST OF ABANDONED PLANS, NEW RICHMOND, QUE. In 1965 the Department of Public Works appointed a consultant to provide architectural services in connection with the construction of a federal building at New Richmond. Fluctuating requirements, related primarily to the separation of the National Employment Service (now the Canada Manpower Division) from the Unemployment Insurance Commission, prolonged the term of the engagement and resulted in significant planning changes.

During 1967-68 the architect was paid $10,600 for abandoned design work. However, in 1969-70 a value of $1,200 was attached to the planning salvaged and that amount was recovered by deduction from moneys due in respect of the final concept, thus reducing the non-productive cost to $9,400.

16. COST OF CANCELLING BUILD-LEASE ARRANGEMENT, STROME, ALTA. When the operation of certain post offices was reviewed by the Post Office in 1966, the post office at Strome was one of those which met the qualifications for improved facilities. Accordingly, the Department of Public Works obtained authority in November 1968 to provide the required accommodation on a build-lease basis, involving payment of an annual rent of $3,240 for a period of 20 years.

In May 1969 the Department of Public Works was requested to cancel the undertaking, a check by postal officials having revealed that activities at Strome had fallen well below the criteria set for upgrading of such offices. The entrepreneur, who had commenced construction, agreed to settle either for complete cancellation at a cost of $9,500 or for payment of $5,500 and a build-lease arrangement elsewhere. The latter proposal was accepted. Eaglesham, Alta., was selected as the site of the alternative building, and in September 1969 the amount of $5,500 was paid out in respect of the costs incurred at Strome.

17. COST OF UNUSED SPACE, MONCTON, N.B. As an expedient, the Department of Public Works entered into a five-year lease commencing October 1, 1966 at an annual rental of $2,300 to provide immediate accommodation at Moncton for staff of the Canada Pension Plan. The intention was to move these occupants to more suitable space when it became available and to have the premises used by another department or agency.

The Canada Pension Plan organization was relocated in December 1968, but a replacement tenant could not be found. In November 1969, after lengthy negotiation, the lessor was paid $3,000 in lieu of the amount due under the lease from October 31, 1969. This payment, together with rental outlays of $2,000 for the period January 1 to October 31, 1969, brought the cost of the unused space to $5,000.

18. COST OF UNUSED SPACE, CASTLEGAR, B.C. In order to provide the Unemployment Insurance Commission with additional space, the Department of Public Works entered into a lease covering space on the first and second floors of a building in Castlegar for a term of three years commencing August 1, 1967, at a rental of $16,000 per annum.

The Commission informed the Department in June 1969 that because of changed operational requirements the second floor accommodation could be relinquished. As another occupant could not be found, surrender of the surplus area was negotiated with the lessor and in October 1969 a payment of $2,000 was made as compensation for release of the space thirteen months prior to expiry of the lease.

19. PAYMENT FOR UNUSED WATER AND SEWAGE FACILITIES, BATH, ONT. In item 17 of paragraph 197 of last year's Report, we drew attention to a non-productive payment of $5,900 by the Canadian Penitentiary Service for unused water and sewage facilities. The payment, which covered the period June 1968 to March 1969, was made under an agreement with the Village of Bath, and with the Public Utilities Commission of the Village, whereby water and sewage treatment systems were constructed which would service the nearby Millhaven Institution. After initial capital contributions by the Crown towards the construction costs, the agreement provides for monthly payments of a fraction of the cost of operating, maintaining and repairing the facilities. Millhaven Institution was still under construction and no use had been made of the facilities.

During the year the Penitentiary Service paid $9,600 to the Village as its share of the cost of operations for the period April 1969 to March 1970. As the Millhaven Institution was still not in operation at March 31, 1970, no use was made of the facilities during the year and the $9,600 is a further non-productive payment.

Summary of Assets and Liabilities

183. The Statement of Assets and Liabilities as at March 31, 1970, with comparative figures as at the end of the preceding year, prepared by the Receiver General for inclusion in the Public Accounts as required by section 64 of the Financial Administration Act and certified by the Auditor General, is reproduced as Exhibit 2 to this Report.

Assets

184. The following table shows the assets at March 31, 1970, by main headings in the Statement of Assets and Liabilities, and the corresponding balances at the close of the two previous years:

	March 31, 1970	March 31, 1969	March 31, 1968
Current assets	$ 1,171,415,000	$ 981,374,000	$ 1,344,131,000
Departmental working capital advances	200,962,000	188,871,000	186,540,000
Cash in blocked currency	4,000	1,914,000	2,136,000
Advances to the Exchange Fund Account	3,220,400,000	2,867,000,000	2,033,312,000
Investments in United States dollar securities issued by other than the Government of Canada	58,042,000	90,329,000	122,617,000
Canada Pension Plan Investment Fund	2,832,734,000	2,022,947,000	1,280,788,000
Investments held for retirement of unmatured debt	13,817,000	6,378,000	8,140,000
Loans to, and investments in, Crown corporations	9,634,530,000	8,767,795,000	7,935,611,000
Loans to national governments	1,327,928,000	1,269,213,000	1,206,084,000
Other loans and investments	2,333,584,000	2,114,340,000	1,945,156,000
Securities held in trust	114,363,000	111,466,000	59,535,000
Deferred charges	750,596,000	613,356,000	491,955,000
Inactive loans and investments	94,824,000	94,824,000	94,824,000
Total recorded assets	21,753,199,000	19,129,807,000	16,710,829,000
Less—Reserve for losses on realization of assets	546,384,000	546,384,000	546,384,000
Net recorded assets	$ 21,206,815,000	$ 18,583,423,000	$ 16,164,445,000

185. *Current assets.* The balances included under this heading at March 31, 1970, with the comparable balances at the close of the two previous years, were:

	March 31, 1970	March 31, 1969	March 31, 1968
Cash	$ 1,030,431,000	$ 884,933,000	$ 1,260,654,000
Securities held for the Securities Investment Account	97,370,000	44,427,000	44,355,000
Other current assets	43,614,000	52,014,000	39,122,000
	$ 1,171,415,000	$ 981,374,000	$ 1,344,131,000

The $97,370,000 balance in the Securities Investment Account represents the amortized cost of securities of Canada held temporarily by the Minister of Finance under the authority of section 17 of the Financial Administration Act.

The total of $43,614,000 shown for "Other current assets" comprises Post Office cash on hand and in transit, $23,676,000, and cash totalling $19,938,000 received by all departments after March 31, 1970 which was applicable to, and was recorded in, the 1969-70 accounts.

186. *Departmental working capital advances.* The balances included under this heading at March 31, 1970, with the comparable balances at the close of the two previous years, were:

	March 31, 1970	March 31, 1969	March 31, 1968
Stockpiling of uranium concentrates	$ 94,621,000	$ 87,236,000	$ 74,956,000
Miscellaneous departmental accountable, imprest and standing advances	32,608,000	28,467,000	27,084,000
Defence Production Revolving Fund	27,600,000	34,549,000	39,052,000
Bullion and coinage	18,784,000	14,857,000	15,559,000
Transport stores	8,184,000	7,999,000	11,409,000
Canadian Government Supply Service	5,684,000	3,934,000	5,064,000
Other	13,481,000	11,829,000	13,416,000
	$ 200,962,000	$ 188,871,000	$ 186,540,000

The amount of $94,621,000 for stockpiling of uranium concentrates comprises the accumulated costs of acquiring, refining and storing these concentrates.

The item "Miscellaneous departmental accountable, imprest and standing advances" includes travel and other advances held by departments, government agencies and individuals over the year-end. The larger departmental totals of outstanding advances at March 31, 1970 were: Department of Labour, $14,619,000; Department of National Defence, $11,894,000; Department of Communications, $1,302,000; and Department of Manpower and Immigration, $1,069,000.

The Defence Production Revolving Fund, established under the authority of section 16 of the Defence Production Act, *R.S., c.62,* provides funds to finance the cost of stocks of defence supplies and essential materials and for working capital loans and advances to manufacturers of such supplies and materials.

187. *Advances to the Exchange Fund Account.* This Account is operated by the Bank of Canada on behalf of the Minister of Finance, and advances are made by the Minister from time to time within the maximum ($3,500,000,000 at March 31, 1970) authorized by the Governor in Council under section 23 of the Currency, Mint and Exchange Fund Act, *R.S., c.315.* The balance of the Account at March 31, 1970 was $3,220,400,000, comprising cash advances of $3,086,000,000 and Canada's allocation of special drawing rights issued by the International Monetary Fund, $134,400,000. Special drawing rights are a new medium for use by participating countries as official foreign

currency reserves designed to increase international liquidity. The value of the net assets acquired from the advances to the Exchange Fund Account was $3,250,682,000 indicating an unrecorded surplus of $30,282,000.

A summary of the holdings in this Account at December 31, 1969 is included in paragraph 299 of this Report.

188. *Investments in United States dollar securities issued by other than the Government of Canada.* These holdings consist of $58 million of special United States of America securities acquired under the authority of Order in Council P.C. 1964-1427 of September 10, 1964, pursuant to Vote L17a, Appropriation Act No. 7, 1964, *1964-65, c.20,* which provided for their purchase out of United States dollars paid to Canada pursuant to the Treaty between Canada and the United States of America relating to co-operative development of the water resources of the Columbia River Basin. Securities mature on November 1 of each year to 1971. In November 1969 securities of $32.3 million (US $30 million) matured and were redeemed by the Government of the United States of America.

189. *Canada Pension Plan Investment Fund.* Funds of the Canada Pension Plan in excess of an amount estimated as required to meet all payments in the following three months are available for investment in 20-year non-negotiable provincial and federal securities at the average market yield of outstanding negotiable bonds of Canada which are 20 years or more from maturity. Investments in these securities at March 31, 1970, with the comparable balances at the close of the two previous years, were as follows:

	March 31, 1970	March 31, 1969	March 31, 1968
Ontario	$ 1,586,369,000	$ 1,140,592,000	$ 728,599,000
British Columbia	410,748,000	293,593,000	186,085,000
Alberta	258,819,000	181,758,000	113,333,000
Manitoba	166,345,000	118,662,000	76,412,000
Saskatchewan	131,822,000	91,465,000	55,557,000
Nova Scotia	108,695,000	77,091,000	47,862,000
New Brunswick	82,990,000	58,774,000	37,007,000
Newfoundland	53,487,000	37,930,000	23,693,000
Prince Edward Island	10,385,000	7,145,000	4,288,000
Quebec	7,700,000	4,622,000	2,244,000
Canada	15,374,000	11,315,000	5,708,000
	$ 2,832,734,000	$ 2,022,947,000	$ 1,280,788,000

190. *Investments held for retirement of unmatured debt.* These investments amounting to $13,817,000 consist of $5\frac{1}{2}\%$ Canada bonds maturing on August 1, 1980, with a face value of $15,931,000, purchased under terms of issue whereby the Government is to endeavour to purchase quarterly, in the open market and under certain conditions, one-half of one per cent of the principal amount of the issues.

191. *Loans to, and investments in, Crown corporations.* The following table lists these loans and investments at March 31, 1970, with the comparable balances at the close of the two previous years:

	March 31, 1970	March 31, 1969	March 31, 1968
Central Mortgage and Housing Corporation	$ 4,441,789,000	$ 3,960,603,000	$ 3,575,407,000
Canadian National Railways	2,156,770,000	1,983,097,000	1,782,149,000
Farm Credit Corporation	1,127,727,000	1,049,922,000	921,685,000
The St. Lawrence Seaway Authority	562,714,000	521,160,000	492,418,000
Atomic Energy of Canada Limited	343,370,000	207,437,000	138,915,000
Export Development Corporation	273,513,000	231,575,000	199,122,000
National Harbours Board	265,696,000	261,163,000	250,035,000
Canadian Overseas Telecommunication Corporation	45,919,000	49,343,000	52,383,000
Canadian Dairy Commission	45,167,000	41,955,000	22,179,000
Northern Canada Power Commission	44,673,000	42,056,000	33,631,000
Canada Deposit Insurance Corporation	30,500,000	23,500,000	29,350,000
Polymer Corporation Limited	30,000,000	30,000,000	30,000,000
National Capital Commission, other than Greenbelt—see also below	29,682,000	28,181,000	37,424,000
Eldorado Nuclear Limited	25,477,000	8,247,000	8,247,000
Canadian Commercial Corporation	15,500,000	15,500,000	16,500,000
Northern Transportation Company Limited	10,000,000	2,000,000	—
Canadian Broadcasting Corporation — working capital—see also below	9,000,000	9,000,000	9,000,000
Cape Breton Development Corporation	8,000,000	10,000,000	5,250,000
Bank of Canada	5,920,000	5,920,000	5,920,000
Canadian Arsenals Limited	4,500,000	5,000,000	5,000,000
Freshwater Fish Marketing Corporation	2,200,000	—	—
Royal Canadian Mint	2,000,000	—	—
Canadian National Railways—re acquisition and repair of passenger equipment	2,000,000	2,416,000	2,917,000
Canadian Film Development Corporation	1,748,000	367,000	—
Canadian National Railways—re Yarmouth-Bar Harbour ferry	592,000	617,000	641,000
Canadian National (West Indies) Steamships, Limited	325,000	325,000	325,000
Canadian Patents and Development Limited	296,000	296,000	296,000
Canadian Corporation for the 1967 World Exhibition—see also below	—	25,150,000	—
	9,485,078,000	*8,514,830,000*	*7,618,794,000*
Recovery likely to require parliamentary appropriations—			
Canadian Broadcasting Corporation	112,005,000	92,370,000	74,125,000
National Capital Commission—Greenbelt	37,447,000	37,695,000	37,692,000
Canadian Corporation for the 1967 World Exhibition	—	122,900,000	205,000,000
	149,452,000	*252,965,000*	*316,817,000*
	$ 9,634,530,000	$ 8,767,795,000	$ 7,935,611,000

The total of $9,634,530,000, an increase of $866,735,000 over the previous year, does not represent the total equity of Canada in its Crown corporations at March 31, 1970. This equity in fact amounted to $11,241,593,000, as shown by their individual financial statements published in Volume III of the Public Accounts and as summarized in Appendix 12 on page 10.28 of Volume I of the Public Accounts. The principal reason for this is that the accounts of Canada are maintained on a modified cash basis which does not provide for recording as assets such items as surpluses of Crown corporations or the cost of certain capital assets which have been charged to expenditure. In no sense does the Statement of Assets and Liabilities of the Government of Canada purport to be a consolidation including the accounts of its wholly-owned corporations. The corporations maintain their individual accounts on the accrual accounting basis followed in commercial practice and a number have fiscal years conforming to the cycle of their individual operations rather than the April 1 to March 31 fiscal year.

Advances to Central Mortgage and Housing Corporation, made pursuant to section 22(1) of the Central Mortgage and Housing Corporation Act, *R.S., c.46,* increased by $481 million during the year due to further advances of: $488 million for loans to approved borrowers less repayments of $114 million; and $124 million less repayments of $17 million in respect of projects entered into with provinces, municipalities and universities.

The total for the Canadian National Railways increased by $174 million due to:

(a) further investment in 4% preferred stock of the Company pursuant to section 6 of the Canadian National Railways Capital Revision Act, *R.S., c.311*, continued by the Canadian National Railways Financing and Guarantee Act, 1968, *1968-69, c.9*, and the Canadian National Railways Financing and Guarantee Act, 1969, *1969-70, c.3*	$ 37,304,000
(b) further advances under the authority of—	
Canadian National Railways Financing and Guarantee Act, 1941, *1940-41, c.12*; Canadian National Railways Financing and Guarantee Act, 1942, *1942-43, c.22*	10,131,000
Canadian National Railways Refunding Act, 1955, *1955, c.31*	50,000,000
Canadian National Railways Financing and Guarantee Act, 1969, *1969-70, c.3*:	
Section 7—loans to Air Canada	68,000,000
Section 11—temporary financing of C.N.R.	10,000,000
Section 12—temporary financing of Air Canada	6,571,000
	182,006,000
Less—Repayment of advances made in the previous year for temporary financing	8,333,000
	$ 173,673,000

The advances to the Farm Credit Corporation increased by $78 million during the year due to further loans of $143 million, less repayments of $69 million, and $4 million paid to the Corporation under section 12 of the Farm Credit Act, *1959, c.43,* as additional capital.

The amount shown for The St. Lawrence Seaway Authority increased by $41 million during the year due to additional loans of $30 million and a net increase of $11 million in deferred interest. Included in loans to the Authority are interest-free loans of $75 million for the Welland Canal.

Loans to Atomic Energy of Canada Limited increased by $136 million during the year due to advances made for the construction of: Nelson River transmission line, $58 million; Bruce heavy water plant, $25 million; Pickering nuclear power station, $22 million; Gentilly nuclear power station, $21 million; and for the purchase of heavy water, $10 million.

The investment in the Export Development Corporation (formerly Export Credits Insurance Corporation) increased by $42 million during the year. This change reflects net advances to enable the Corporation to provide long-term financing of export sales, $32 million; the purchase of additional capital stock in the Corporation, $5 million; and payments to the Corporation, required by section 11(3) of the Export Development Act, *1968-69, c.39,* of an amount equal to the payment for shares, $5 million.

Loans to the National Harbours Board increased by $4.5 million during the year due mainly to further advances of $3.9 million for Vancouver Harbour provided by Vote L180, Appropriation Act No. 3, 1969, *1968-69, c.36.*

The amount shown for the Canada Deposit Insurance Corporation increased by $7 million during the year due to further loans made pursuant to section 34 of the Canada Deposit Insurance Corporation Act, *1966-67, c.70.*

The amount shown for Eldorado Nuclear Limited increased by $17 million during the year due to loans provided by Vote L3b, Appropriation Act No. 1, 1969, *1968-69, c.23.*

Northern Transportation Company Limited repaid $1 million during the year and obtained further advances of $9 million, provided by Vote L70, Appropriation Act No. 4, 1968, *1968-69, c.11,* and Vote L90, Appropriation Act No. 3, 1969, *1968-69, c.36.* The loans were made to finance the acquisition of transportation facilities for use on the Mackenzie River and the Central Arctic coast.

Loans of $3.2 million were made to the Freshwater Fish Marketing Corporation during the year under the authority of section 17 of the Freshwater Fish Marketing Act, *1968-69, c.21.* Repayments totalled $1 million. The Corporation was established by the Act for the purpose of marketing and trading in fish, fish products and fish by-products in and out of Canada.

Loans of $2 million were made to the Royal Canadian Mint during the year under the authority of section 87 of the Government Organization Act, 1969, *1968-69, c.28.* The Mint was incorporated in 1969-70 by section 72 of the Act.

Additional advances of $1.4 million were made during the year to the Canadian Film Development Corporation under the authority of the Canadian Film Development Corporation Act, *1966-67, c.78.*

The financing of the capital requirements of the Canadian Broadcasting Corporation continued to be by means of loans. Additional loans, provided by Vote L145, Appropriation Act No. 3, 1969, *1968-69, c.36,* totalled $25 million. Repayments during the year amounted to $5 million. Repayment of the loans of $112 million outstanding at March 31, 1970 will involve parliamentary appropriations over a period of 20 years.

192. *Loans to national governments.* The following is a listing of the balances of these loans at March 31, 1970 in comparison with the balances at the close of the two previous years:

	March 31, 1970	March 31, 1969	March 31, 1968
United Kingdom	$ 1,038,081,000	$ 1,058,091,000	$ 1,039,999,000
France	67,600,000	67,600,000	67,600,000
Netherlands	32,130,000	32,130,000	32,130,000
Belgium	16,149,000	18,456,000	20,763,000
India	—	—	1,323,000
Other countries	212,000	305,000	164,000
	1,154,172,000	*1,176,582,000*	*1,161,979,000*
Special assistance loans to developing countries:			
India	87,657,000	42,935,000	16,953,000
Pakistan	43,661,000	22,672,000	12,665,000
Nigeria	7,653,000	5,705,000	3,976,000
Ceylon	7,502,000	4,243,000	2,974,000
Trinidad and Tobago	5,101,000	3,777,000	2,839,000
Jamaica	5,096,000	3,247,000	1,540,000
El Salvador	3,240,000	2,068,000	51,000
Guyana	2,782,000	2,361,000	1,067,000
Tanzania	2,550,000	2,043,000	1,770,000
Tunisia	1,947,000	892,000	—
Ecuador	1,108,000	714,000	155,000
Brazil	1,101,000	—	—
Other countries	4,358,000	1,974,000	115,000
	173,756,000	*92,631,000*	*44,105,000*
	$ 1,327,928,000	$ 1,269,213,000	$ 1,206,084,000

No payments were due from France and the Netherlands because of special payments made in 1962-63 covering instalments up to and including the 1969 instalment.

The special assistance loans to developing countries increased by $81 million. These include loans of $36 million repayable over 40 years, following a grace period of 10 years from the date of execution of each agreement, which bear interest at $\frac{3}{4}$ of 1% per annum on the amount of the loan committed less any repayments, and $125 million of interest-free loans, also repayable over 40 years with a grace period of 10 years.

193. *Other loans and investments.* The balances comprising this asset at March 31, 1970, with the comparable balances at the close of the two previous years, were:

	March 31, 1970	March 31, 1969	March 31, 1968
Subscriptions to capital of, and working capital advances and loans to, international organizations	$ 1,047,038,000	$ 999,124,000	$ 969,646,000
Veterans' Land Act Fund	498,728,000	446,111,000	406,231,000
Less—Reserve for conditional benefits	26,649,000	24,443,000	23,282,000
	472,079,000	*421,668,000*	*382,949,000*

	March 31, 1970	March 31, 1969	March 31, 1968
Provincial governments	$ 319,649,000	$ 270,328,000	$ 187,748,000
Municipal Development and Loan Board	272,777,000	281,312,000	279,673,000
Manufacturers of automotive products in Canada	33,752,000	21,644,000	20,505,000
Housing projects for the Canadian Forces	21,393,000	21,660,000	21,598,000
Government of the Northwest Territories	20,917,000	16,810,000	12,781,000
Government of the Yukon Territory	20,496,000	15,308,000	11,480,000
Manufacturers—defence plant modernization	18,341,000	14,643,000	10,210,000
City of Montreal	14,082,000	—	—
Investment in shares of Panarctic Oils Ltd.	13,534,000	—	—
Loans to Telesat Canada for the development of space and terrestrial communications	9,850,000	—	—
Assisted passage scheme	9,227,000	11,974,000	13,219,000
Government equity in agency account of Crown Assets Disposal Corporation	9,181,000	7,761,000	7,257,000
Loans for the construction and acquisition of ferry vessels and related equipment	5,722,000	4,036,000	—
Airport capital loans	5,126,000	—	—
Other balances	40,420,000	28,072,000	28,090,000
	$ 2,333,584,000	$ 2,114,340,000	$ 1,945,156,000

The following is a listing of Canada's subscriptions to capital of, and working capital advances and loans to, international organizations at March 31, 1970, in comparison with the amounts at the close of the two previous years:

	March 31, 1970	March 31, 1969	March 31, 1968
Subscriptions to capital—			
International Monetary Fund	$ 800,000,000	$ 782,655,000	$ 782,655,000
International Development Association	139,803,000	112,776,000	85,749,000
International Bank for Reconstruction and Development	85,024,000	85,024,000	85,024,000
Asian Development Bank	10,811,000	8,108,000	5,405,000
International Finance Corporation	3,522,000	3,522,000	3,522,000
Caribbean Development Bank	1,081,000	—	—
	1,040,241,000	992,085,000	962,355,000
Working capital advances and loans	6,797,000	7,039,000	7,291,000
	$ 1,047,038,000	$ 999,124,000	$ 969,646,000

The increase of $17 million in the International Monetary Fund represents an adjustment in the recorded amount of Canada's subscription to the capital of the Fund which is $800 million equivalent to US $740 million. The corresponding amount was credited to premium, discount and exchange. During the year Canada increased its contribution to the capital of the International Development Association by

$27 million as authorized by Vote L28, Appropriation Act No. 4, 1968, *1968-69, c.11,* paid a further instalment of $2.7 million on the subscription to shares in the Asian Development Bank as authorized by Vote L23b, Appropriation Act No. 9, 1966, *1966-67, c.55,* and made an initial payment of $1,081,000 on the subscription to shares in the Caribbean Development Bank as authorized by Vote L36a, Appropriation Act No. 4, 1969, *1969-70, c.2.*

The increase of $52 million in the Veterans' Land Act Fund was due to additional advances of $80 million for the purchase of property, less repayments of $28 million.

The loans to provincial governments at March 31, 1970, with the comparable balances at the close of the two previous years, were:

	March 31, 1970	March 31, 1969	March 31, 1968
Newfoundland	$ 74,093,000	$ 46,600,000	$ 30,389,000
Quebec	71,549,000	73,460,000	18,912,000
New Brunswick	62,825,000	56,527,000	45,172,000
Nova Scotia	62,817,000	47,462,000	38,394,000
Saskatchewan	22,365,000	23,592,000	29,199,000
Manitoba	13,823,000	9,675,000	10,801,000
British Columbia	7,557,000	8,503,000	9,431,000
Alberta	4,041,000	4,509,000	4,970,000
Prince Edward Island	579,000	—	480,000
	$ 319,649,000	$ 270,328,000	$ 187,748,000

The following schedule shows the nature of the loans to the provincial governments:

	March 31, 1970	March 31, 1969	March 31, 1968
Advances and loans pursuant to the Atlantic Provinces Power Development Act, *1957–58, c.25*	$ 184,939,000	$ 144,758,000	$ 101,938,000
Quebec share re guarantee 1967 World Exhibition loans	57,945,000	60,491,000	—
Treasury bill indebtedness of the Governments of the Western Provinces pursuant to the provisions of the Western Provinces Treasury Bills and Natural Resources Settlement Act, *1947, c.77*	27,877,000	31,233,000	34,545,000
Overpayments to provinces arising from the Federal-Provincial Fiscal Arrangements Act, *1960–61, c.58*	14,402,000	19,606,000	38,081,000
Overpayments to provinces arising from the Federal-Provincial Fiscal Arrangements Act, 1967, *1966–67, c.89*	13,197,000	—	—
Saskatchewan—re South Saskatchewan River Project	12,337,000	12,337,000	12,337,000
Other	8,952,000	1,903,000	847,000
	$ 319,649,000	$ 270,328,000	$ 187,748,000

Advances and loans to the provinces pursuant to the Atlantic Provinces Power Development Act increased by $40 million over the preceding year due to further advances of $35 million under the authority of Vote L120, Appropriation Act No. 3, 1969, *1968-69, c.36;* accrued interest on completed projects, $6 million; less repayments of $1 million.

The Municipal Development and Loan Board advances were made pursuant to the Municipal Development and Loan Act, *1963, c.13,* to provide financial assistance to augment or accelerate municipal capital works programs.

The amount of $14,082,000 shown for the City of Montreal is the City's indebtedness to Canada in connection with its share of the deficit of the 1967 World Exhibition.

The amount of $13.5 million for Panarctic Oils Ltd. represents the cost of Canada's investment in the capital stock of that Corporation. Payments of $2 million, $3 million and $4 million in 1967-68, 1968-69 and 1969-70, respectively, were charged to parliamentary appropriations with the investment carried at a nominal value of $1. During the year an additional payment of $4.5 million was authorized under a loan vote. To reflect the change in policy and to obtain consistency in the accounting treatment, the payments of $9 million that had been charged to expenditure were set up as an asset with a corresponding amount credited to revenue.

194. *Securities held in trust.* The amount of $114,363,000 at March 31, 1970 represents securities held for the following accounts: guarantee deposits in respect of oil and gas and mining permits, $98,216,000; guarantee deposits in respect of customs duties and excise taxes, $4,763,000; pilots' pension funds, $4,411,000; deposits in respect of tax on recaptured capital cost allowances on commercial and fishing vessels, $2,596,000; contractors' securities, $1,616,000; and other, $2,761,000.

195. *Deferred charges.* The balances included under this heading at March 31, 1970, with the comparable balances at the close of the two previous years, were:

	March 31, 1970	March 31, 1969	March 31, 1968
Unamortized portion of actuarial deficiencies—			
Public Service Superannuation Account	$ 283,708,000	$ 186,487,000	$ 150,320,000
Canadian Forces Superannuation Account	254,806,000	242,691,000	187,617,000
Royal Canadian Mounted Police Superannuation Account	29,283,000	20,720,000	15,816,000
	567,797,000	449,898,000	353,753,000
Unamortized loan flotation costs	182,799,000	163,458,000	138,202,000
	$ 750,596,000	$ 613,356,000	$ 491,955,000

The relative superannuation statutes provide that actuarial deficiencies resulting from salary revisions and periodical valuations of the Superannuation Accounts be charged to expenditure in five equal annual instalments. The item "Unamortized portion of actuarial deficiencies" represents the portion of the actuarial deficiencies to be charged

to expenditure in subsequent fiscal years. During the year $363 million was charged to this account; $312 million resulted from salary revisions and the balance of $51 million represented the provision required for the actuarial deficiency revealed by the valuation made of the Public Service Superannuation Account as at December 31, 1967. Credits representing that portion of the actuarial deficiencies charged to expenditure in the year amounted to $245 million.

The item "Unamortized loan flotation costs" represents the unamortized portion of discounts and commissions paid on the flotation of loans. These costs are amortized, in the case of general loans, over the period from the date of issue to the earliest call date, if one is specified, otherwise to the maturity date of the loan, and in the case of Canada Savings Bonds over a period of five years from the date of issue.

196. *Inactive loans and investments.* The $94,824,000 shown for this item, which has remained unchanged for many years, comprises the following balances:

Loan to China in 1946 under the Export Credits Insurance Act, *R.S., c.105*	$ 49,426,000
Loans to Roumania in 1919 for the purchase of goods produced in Canada	24,329,000
Payments to chartered banks in the years 1951–52 to 1960–61 in implementation of guarantee, given under the Export Credits Insurance Act, of loans by the banks to Ming Sung Industrial Company Limited (carrying prior guarantee by the Government of China)	14,470,000
Loans to Greece in 1919 for the purchase of goods produced in Canada	6,525,000
Loan to Province of Saskatchewan in 1908 for the purchase of seed grain (last payment received in 1959–60)	74,000
	$ 94,824,000

Liabilities

197. The following table shows the liabilities at March 31, 1970, by main headings in the Statement of Assets and Liabilities, and the corresponding balances at the close of the two previous years:

	March 31, 1970	March 31, 1969	March 31, 1968
Current and demand liabilities	$ 2,307,211,000	$ 2,219,087,000	$ 2,310,627,000
Deposit and trust accounts	491,882,000	511,843,000	440,885,000
Annuity, insurance and pension accounts	12,184,505,000	10,520,063,000	9,052,968,000
Undisbursed balances of appropriations to special accounts	273,398,000	235,508,000	124,819,000
Refundable corporation tax	38,148,000	140,806,000	235,269,000
Provision for compound interest on Canada Savings Bonds	20,301,000	12,421,000	26,041,000
Deferred credits	192,928,000	174,326,000	149,861,000
Suspense accounts	4,584,000	4,249,000	3,825,000
Unmatured debt	22,637,140,000	22,100,958,000	20,579,875,000
	$ 38,150,097,000	$ 35,919,261,000	$ 32,924,170,000

198. *Current and demand liabilities.* The balances comprising this item in the Statement at March 31, 1970, in comparison with the balances at the close of the two previous years, were:

	March 31, 1970	March 31, 1969	March 31, 1968
Accounts payable	$ 602,615,000	$ 470,162,000	$ 520,196,000
Outstanding cheques	515,880,000	502,541,000	427,401,000
Interest accrued	434,023,000	399,433,000	315,283,000
Non-interest-bearing notes payable to the International Monetary Fund and other international organizations	379,065,000	601,008,000	816,730,000
Interest due	161,642,000	162,915,000	161,569,000
Allocation of special drawing rights in the International Monetary Fund	134,400,000	—	—
Outstanding post office money orders	34,539,000	34,939,000	34,895,000
Matured debt	21,224,000	39,708,000	25,969,000
Other	23,823,000	8,381,000	8,584,000
	$ 2,307,211,000	$ 2,219,087,000	$ 2,310,627,000

The amount shown for "Accounts payable" is the total of charges pertaining to the year for which cheques were issued in April of the following fiscal year.

The non-interest-bearing notes represent those portions of Canada's subscriptions to the capital of international agencies which are not covered by cash or gold. At March 31, 1970, $364 million was payable to the International Monetary Fund, $10 million to the International Development Association and $5 million to the Asian Development Bank.

The liability in respect of the allocation of special drawing rights in the International Monetary Fund represents the obligation arising from Canada's participation in the Special Drawing Account. Special drawing rights amounting to $134,400,000 were held by the Exchange Fund Account at March 31, 1970 forming part of Canada's exchange reserves.

199. *Deposit and trust accounts.* The following is a listing of the balances included in this item at March 31, 1970 in comparison with the balances at the close of the two previous years:

	March 31, 1970	March 31, 1969	March 31, 1968
Provincial tax collection agreements	$ 174,281,000	$ 171,419,000	$ 120,210,000
Guarantee deposits	109,090,000	105,252,000	50,046,000
Indian trust funds	34,001,000	34,274,000	34,015,000
Deposits by Crown corporations	26,148,000	16,321,000	23,821,000
National Harbours Board	25,135,000	22,705,000	16,771,000
Instalment purchase of bonds by public service employees	17,403,000	15,599,000	16,168,000
Contractors' holdbacks	16,127,000	13,373,000	14,896,000

	March 31, 1970	March 31, 1969	March 31, 1968
Prairie Farm Emergency Fund..........	$ 16,088,000	$ 14,543,000	$ 13,001,000
Canadian Pension Commission (Administration trust fund)..................	13,472,000	17,204,000	16,545,000
Veterans care trust fund................	9,154,000	4,602,000	4,142,000
Canadian Dairy Commission Account....	7,534,000	24,521,000	25,241,000
Veterans' Land Act trust account........	5,063,000	7,864,000	8,936,000
Army Benevolent Fund.................	4,476,000	4,746,000	5,033,000
Post Office Savings Bank...............	3,944,000	7,805,000	18,596,000
Deposits respecting capital cost allowances on commercial and fishing vessels......	3,151,000	8,221,000	4,003,000
Other..................................	26,815,000	43,394,000	69,461,000
	$ 491,882,000	$ 511,843,000	$ 440,885,000

The Federal Government collects provincial income taxes from persons on behalf of all provinces except Quebec and from corporations on behalf of all provinces except Ontario and Quebec. At March 31, 1970 collections had exceeded remittances by $174,281,000.

The balance of $109,090,000 in the guarantee deposits account largely represents cash and securities deposited with the departments as guarantees in respect of oil and gas permits, mineral and timber rights, and for payments of customs duties and excise taxes. The securities held are recorded as assets in the contra account "Securities held in trust".

Deposits by Crown corporations at March 31, 1970 comprised: Export Development Corporation (formerly the Export Credits Insurance Corporation), $24,053,000; Atomic Energy of Canada Limited, $1,500,000; Crown Assets Disposal Corporation, $500,000; and Canadian National (West Indies) Steamships, Limited, $95,000.

The National Harbours Board account is the operating account of the Board in which all its receipts and payments are recorded. The balance includes the cash portion of the reserve funds of the Board for the replacement of fixed assets, etc.

The Prairie Farm Assistance Act, *R.S., c.213*, imposes a levy of 1% on the price of grain purchased by licensees under the Canada Grain Act, *R.S., c.25*, and the moneys collected are credited to the Prairie Farm Emergency Fund. Awards are made to eligible farmers in areas affected by crop failures in the Provinces of Manitoba, Saskatchewan and Alberta and in the Peace River District of British Columbia. During 1969-70 credits to the Fund totalled $5.7 million while awards totalled $4.1 million, resulting in a surplus for the year of $1.6 million.

The Canadian Pension Commission (Administration trust fund) account comprises pension payments administered by the Canadian Pension Commission, contributions received by the Commission to assist pensioners or their dependants, and detention allowances for Canadian seamen.

The Veterans care trust fund contains assigned pension moneys and other income of veterans who are receiving domiciliary care and treatment. Disbursements are made on behalf of the individual veterans in accordance with regulations approved by the Governor in Council.

The Canadian Dairy Commission Account is the operating account of the Commission in which are recorded all its receipts and payments except those relating to administration. The balance of $7,534,000 at March 31, 1970 represents the undisbursed balance of payments totalling $131,857,000 received during the year from the Agricultural Stabilization Board for the purpose of stabilizing the price of dairy products.

The Veterans' Land Act trust account is the repository of advance payments by veterans in connection with the purchase of land, payment of taxes, insurance, etc., and of proceeds of insurance claims to be used for the repair of fire damage.

Under the provisions of "An Act to amend the Income Tax Act and to repeal the Canadian Vessel Construction Assistance Act", *1966-67, c.91,* an owner of a vessel, at the time of its disposal, may deposit with the Department of Industry, Trade and Commerce an amount at least equal to the tax that would otherwise be payable in respect of the proceeds of disposition. Such a deposit may be paid out to any person who, before 1974, acquires a vessel constructed in Canada or incurs conversion costs in Canada with respect to a vessel, under conditions satisfactory to the Minister of Industry, Trade and Commerce. During the year $19 million was deposited to this account and $24 million was paid out.

The $26,815,000 shown for "Other" balances at March 31, 1970 is the total of 76 balances including: Permanent Services deferred pay, $2,966,000; Common school funds, $2,678,000; National Research Council of Canada special fund, $2,584,000; Contractors' security deposits, $2,343,000; Emergency gold mining assistance holdbacks, $1,890,000; Immigration guarantee fund, $1,734,000; World War II claims fund, $1,248,000; and Government of the United States of America, $1,136,000.

200. *Annuity, insurance and pension accounts.* The balances included under this heading at March 31, 1970, with comparable figures at the close of the two previous years, were:

	March 31, 1970	March 31, 1969	March 31, 1968
Superannuation accounts—			
Public Service	$ 3,599,428,000	$ 3,178,377,000	$ 2,875,823,000
Canadian Forces	3,306,389,000	3,023,617,000	2,723,268,000
Royal Canadian Mounted Police	165,765,000	130,811,000	104,724,000
	7,071,582,000	*6,332,805,000*	*5,703,815,000*
Canada Pension Plan Account	2,932,258,000	2,107,758,000	1,352,754,000
Government Annuities Account	1,321,080,000	1,324,635,000	1,326,098,000
Old Age Security Fund	721,398,000	620,892,000	536,089,000
Other	138,187,000	133,973,000	134,212,000
	$ 12,184,505,000	$ 10,520,063,000	$ 9,052,968,000

Summaries of the transactions during the past three years in certain of the accounts follow:

Public Service Superannuation Account

	Year ended March 31		
	1970	1969	1968
Balance at beginning of year	$ 3,178,377,000	$ 2,875,823,000	$ 2,689,468,000
Add:			
Actuarial adjustments — contra — "deferred charges" account, re:			
pay increases	163,900,000	121,000,000	21,500,000
deficit at December 31, 1967	51,194,000	—	—
Interest	130,993,000	117,950,000	110,898,000
Contributions by participants	90,987,000	77,473,000	72,064,000
Contributions by the Government	78,835,000	70,853,000	64,593,000
Other credits	1,023,000	2,242,000	1,414,000
	516,932,000	*389,518,000*	*270,469,000*
	3,695,309,000	3,265,341,000	2,959,937,000
Deduct:			
Annuity payments	83,326,000	74,683,000	68,167,000
Termination allowances and return of contributions	10,525,000	10,275,000	10,855,000
Other charges	2,030,000	2,006,000	5,092,000
	95,881,000	*86,964,000*	*84,114,000*
Balance at end of year	$ 3,599,428,000	$ 3,178,377,000	$ 2,875,823,000

Canadian Forces Superannuation Account

	Year ended March 31		
	1970	1969	1968
Balance at beginning of year	$ 3,023,617,000	$ 2,723,268,000	$ 2,577,017,000
Add:			
Actuarial adjustments — contra — "deferred charges" account, re:			
pay increases	129,000,000	121,900,000	—
deficit at December 31, 1965	—	37,700,000	—
Interest	124,396,000	112,169,000	105,247,000
Contributions by the Government	65,566,000	56,982,000	58,405,000
Contributions by participants	38,724,000	33,889,000	33,048,000
Other credits	4,000	8,000	1,404,000
	357,690,000	*362,648,000*	*198,104,000*
	3,381,307,000	3,085,916,000	2,775,121,000
Deduct:			
Annuity payments	67,426,000	55,202,000	45,882,000
Termination allowances and return of contributions	7,427,000	6,983,000	5,863,000
Other charges	65,000	114,000	108,000
	74,918,000	*62,299,000*	*51,853,000*
Balance at end of year	$ 3,306,389,000	$ 3,023,617,000	$ 2,723,268,000

Royal Canadian Mounted Police Superannuation Account

	Year ended March 31		
	1970	1969	1968
Balance at beginning of year	$ 130,811,000	$ 104,724,000	$ 85,081,000
Add:			
Actuarial adjustments—contra—"deferred charges" account, re:			
pay increases	19,200,000	12,740,000	2,600,000
deficit at December 31, 1964	—	—	7,547,000
Contributions by the Government	7,372,000	6,551,000	4,201,000
Interest	5,455,000	4,495,000	3,535,000
Contributions by participants	4,196,000	3,358,000	2,701,000
Contributions by Newfoundland	17,000	17,000	17,000
Other credits	30,000	28,000	32,000
	36,270,000	*27,189,000*	*20,633,000*
	167,081,000	131,913,000	105,714,000
Deduct:			
Annuity payments	996,000	881,000	778,000
Termination allowances and return of contributions	304,000	210,000	203,000
Other charges	16,000	11,000	9,000
	1,316,000	*1,102,000*	*990,000*
Balance at end of year	$ 165,765,000	$ 130,811,000	$ 104,724,000

Canada Pension Plan Account

	Year ended March 31		
	1970	1969	1968
Balance at beginning of year	$ 2,107,758,000	$ 1,352,754,000	$ 680,881,000
Add:			
Contributions from employers and employees	745,646,000	697,626,000	640,244,000
Interest	143,508,000	86,810,000	43,578,000
Other credits	404,000	590,000	835,000
	889,558,000	*785,026,000*	*684,657,000*
	2,997,316,000	2,137,780,000	1,365,538,000
Deduct:			
Benefit payments	47,346,000	15,567,000	1,268,000
Administrative expense	17,712,000	14,455,000	11,516,000
	65,058,000	*30,022,000*	*12,784,000*
Balance at end of year	$ 2,932,258,000	$ 2,107,758,000	$ 1,352,754,000

Government Annuities Account

	Year ended March 31		
	1970	1969	1968
Balance at beginning of year	$ 1,324,635,000	$ 1,326,098,000	$ 1,324,519,000
Add:			
Interest	51,092,000	51,048,000	50,954,000
Premiums	12,896,000	14,915,000	18,587,000
Sundry adjustments	26,000	18,000	25,000
	64,014,000	*65,981,000*	*69,566,000*
	1,388,649,000	1,392,079,000	1,394,085,000
Deduct:			
Vested annuity and commuted value payments and refunds	67,167,000	66,643,000	66,800,000
Transfer to revenue of the excess over actuarial value of outstanding contracts	402,000	801,000	1,187,000
	67,569,000	*67,444,000*	*67,987,000*
Balance at end of year	$ 1,321,080,000	$ 1,324,635,000	$ 1,326,098,000

Old Age Security Fund

	Year ended March 31		
	1970	1969	1968
Collection of tax—			
On sales	$ 577,441,000	$ 528,122,000	$ 544,516,000
On personal incomes	1,026,500,000	915,000,000	800,100,000
On corporation incomes	227,100,000	183,000,000	150,000,000
	1,831,041,000	1,626,122,000	1,494,616,000
Payment of pensions under the Old Age Security Act	1,730,535,000	1,541,319,000	1,388,119,000
Surplus for the year	100,506,000	84,803,000	106,497,000
Preceding year's surplus brought forward	620,892,000	536,089,000	429,592,000
Surplus at March 31	$ 721,398,000	$ 620,892,000	$ 536,089,000

The following is a listing of the major items included in "Other" at March 31, 1970 in comparison with the balances at the close of the two previous years:

	March 31, 1970	March 31, 1969	March 31, 1968
Veterans Insurance Fund	$ 32,423,000	$ 32,146,000	$ 31,616,000
Civil Service Insurance Fund	23,423,000	23,814,000	24,061,000
Regular Forces Death Benefit Account	20,696,000	19,611,000	18,844,000
Public Service Death Benefit Account	19,048,000	16,383,000	14,389,000
Unemployment Insurance Fund	11,775,000	12,077,000	16,397,000
Returned Soldiers' Insurance Fund	9,639,000	10,204,000	10,787,000
Royal Canadian Mounted Police Dependants' Pension Fund	8,439,000	8,282,000	8,093,000
Crop Reinsurance Fund	4,569,000	3,348,000	1,911,000
Pilots' Pension Funds	4,479,000	4,108,000	3,751,000
Members of Parliament Retiring Allowances Account	2,758,000	2,621,000	2,559,000
Sundry	938,000	1,379,000	1,804,000
	$ 138,187,000	$ 133,973,000	$ 134,212,000

The Crop Reinsurance Fund account was established by an amendment (*1964-65, c.28*) to the Crop Insurance Act, *1959, c.42*. Moneys amounting to $1,221,000 paid by three provinces under reinsurance agreements were credited to the Fund during 1969-70.

The following is a summary of the transactions in the Members of Parliament Retiring Allowances Account during the past three years:

	Year ended March 31		
	1970	1969	1968
Balance at beginning of year	$ 2,621,000	$ 2,559,000	$ 2,329,000
Add:			
Contributions by participants	235,000	236,000	236,000
Contributions by the Government	218,000	212,000	206,000
Interest	106,000	103,000	97,000
	559,000	*551,000*	*539,000*
	3,180,000	3,110,000	2,868,000
Deduct:			
Annual allowances	416,000	398,000	294,000
Withdrawal allowances	6,000	91,000	15,000
	422,000	*489,000*	*309,000*
Balance at end of year	$ 2,758,000	$ 2,621,000	$ 2,559,000

201. *Undisbursed balances of appropriations to special accounts.* The balances included under this heading at March 31, 1970, with the comparable balances at the close of the two previous years, were:

	March 31, 1970	March 31, 1969	March 31, 1968
Reserve for wheat inventory reduction payments	$ 100,000,000	$ —	$ —
International Assistance Account	84,942,000	86,386,000	64,846,000
Reserve for retroactive salary increases	64,332,000	120,529,000	—
National Capital Fund—National Capital Commission	11,800,000	3,750,000	—
Surplus Crown Assets Account—Department of National Defence	10,769,000	13,122,000	31,053,000
Centennial of Confederation Fund	848,000	2,384,000	7,253,000
Railway Grade Crossing Fund	—	8,225,000	9,509,000
Other	707,000	1,112,000	12,158,000
	$ 273,398,000	$ 235,508,000	$ 124,819,000

The reserve for wheat inventory reduction payments was established by Agriculture Vote 17b, Appropriation Act No. 1, 1970, *1969-70, c.24,* to provide for payments, which may be made in 1970-71 for wheat acreage reduction, of $6 per acre up to a maximum of 1,000 acres per Canadian Wheat Board permit book-holder.

The International Assistance Account was established under authority of External Affairs Vote 33d, Appropriation Act No. 2, 1965, *1964-65, c.50.* The Account provides for economic, technical and educational assistance to developing countries and special administrative and other expenses in connection therewith. In 1969-70 the Account was credited with $57 million provided by External Affairs Vote 35 and charged with expenditure of $58 million.

Treasury Board Vote 5b, Appropriation Act No. 1, 1969, *1968-69, c.23,* established a reserve for retroactive salary increases. In 1969-70 the reserve was charged with expenditure of $115 million and credited with $58 million provided by Treasury Board Vote 5a, Appropriation Act No. 4, 1969, *1969-70, c.2.*

The National Capital Fund was established by the National Capital Act, *1958, c.37,* to finance the cost of capital projects, as approved by the Governor in Council, in the national capital area. In 1969-70 the Fund was credited with $13.8 million provided by Regional Economic Expansion Vote 25 and $5.8 million was transferred to the National Capital Commission to finance the costs of approved projects.

The Surplus Crown Assets Account—Department of National Defence was established by Vote 48 of Appropriation Act No. 2, 1966, *1966-67, c.3.* Proceeds from the sale of surplus materials, supplies, equipment and, subject to annual limits up to 1968-69, from the sale of surplus buildings, works and land, are credited to the Account and, subject to the approval of the Treasury Board, expenditure for any of the purposes of the

Department of National Defence is charged to this Account. In 1969-70 the Account was credited with proceeds from sales of $7 million and charged with expenditure of $10 million.

During the year, $1,536,000 was paid out of the Centennial of Confederation Fund, leaving a balance of $848,000 at March 31, 1970.

202. *Refundable corporation tax.* This account records amounts received from corporations and trusts as special refundable income tax computed in accordance with an amendment (*1966-67, c.47*) to the Income Tax Act, *R.S., c.148*. This special tax applied to the period May 1, 1966 to October 31, 1967 and is refundable, with interest at 5% per annum, from 18 to 36 months after the date of receipt. During the year $14 million was credited to this account and $117 million was refunded, leaving a balance of $38,148,000.

203. *Provision for compound interest on Canada Savings Bonds.* Certain issues of Canada Savings Bonds provide for payment of additional interest where bondholders do not claim interest for certain stipulated periods of time. The balance of $20,301,000 in the account represents the provision to March 31, 1970 for this additional interest.

204. *Deferred credits.* The following is an analysis of this item at the close of the 1969-70 fiscal year and the two previous years:

	March 31, 1970	March 31, 1969	March 31, 1968
Deferred interest on loans made under The United Kingdom Financial Agreement Act, 1946, *1946, c.12*	$ 101,077,000	$ 101,077,000	$ 82,985,000
Deferred interest on loans to The St. Lawrence Seaway Authority	71,864,000	60,610,000	54,468,000
Equity in agency account of Crown Assets Disposal Corporation	9,181,000	7,761,000	7,257,000
Capitalized interest on loans to provincial governments pursuant to the Atlantic Provinces Power Development Act, *1957-58, c.25*	8,843,000	2,745,000	2,740,000
Other balances	1,963,000	2,133,000	2,411,000
	$ 192,928,000	$ 174,326,000	$ 149,861,000

The St. Lawrence Seaway Authority paid $9 million on account of interest previously deferred, while payment of interest for the 1969 year amounting to $20 million was in turn deferred. This deferred interest is payable by the Authority over a 39-year period along with repayments of principal.

205. *Suspense accounts.* These consist of balances where some uncertainty as to their disposition exists. The largest suspense item is "Unclaimed cheques account" which totalled $1.3 million at March 31, 1970.

206. *Unmatured debt.* A summary of the unmatured debt at March 31, 1970, with the comparable balances at the close of the two previous years, follows:

	March 31, 1970	March 31, 1969	March 31, 1968
Bonds—			
Payable in Canadian dollars	$ 19,295,185,000	$ 18,818,550,000	$ 17,939,521,000
Payable in United States dollars	265,003,000	266,733,000	160,354,000
Payable in Italian lire	108,108,000	108,108,000	—
Payable in German marks	73,844,000	67,567,000	—
	19,742,140,000	*19,260,958,000*	*18,099,875,000*
Treasury bills	2,895,000,000	2,840,000,000	2,480,000,000
	$ 22,637,140,000	$ 22,100,958,000	$ 20,579,875,000

The increase of $477 million in the bonds payable in Canadian dollars is the amount by which new borrowings of $6,736 million exceeded redemptions of $6,259 million. Canada Savings Bonds accounted for $411 million of the increase which resulted from $4,886 million of new issues and $4,475 million of redemptions.

The official parity rate for Italian lire is 625=$1 US and for German marks is 3.66=$1 US. The indebtedness payable in these currencies is converted to US currency at the official parity rates and then, along with the indebtedness payable in United States dollars, is recorded at the official rate of $1 US=$1.08108 Canadian.

The treasury bills indebtedness of $2,895,000,000 comprises: three-month bills, $1,765,000,000; six-month bills, $880,000,000; 308-day bills, $175,000,000; and 364-day bills, $75,000,000.

Net Debt

207. With the Liabilities amounting to $38,150,097,000 (paragraph 197) and the Assets to $21,206,815,000 (paragraph 184), the Net Debt at March 31, 1970 was $16,943,282,000. The following is an analysis of the Net Debt Account for the year:

Balance at April 1, 1969		$ 17,335,838,000
Surplus for the year—		
Revenue	$ 12,323,845,000	
Expenditure	11,931,289,000	
		392,556,000
Balance at March 31, 1970		$ 16,943,282,000

Contingent Liabilities

208. A note on the Statement of Assets and Liabilities gives the totals of the several classes of contingent liabilities at the year-end and refers to page 7.96 of the Public Accounts (Volume I) where details are to be found.

The following is a summary of the contingent liabilities with determinate amounts outstanding at March 31, 1970 in comparison with the corresponding amounts at the close of the two previous years:

	March 31, 1970	March 31, 1969	March 31, 1968
Insured loans made by approved lenders under the National Housing Act, 1954, *1953-54, c.23*	$ 7,327,000,000	$ 6,732,000,000	$ 6,311,000,000
Railway securities guaranteed as to principal and interest	1,050,476,000	1,131,366,000	1,197,181,000
Loans made by chartered banks to the Canadian Wheat Board	578,000,000	394,900,000	141,414,000
Loans made by chartered banks under various Acts	454,305,000	358,835,000	296,689,000
Guarantees under the Export Development Act, *1968-69, c.39*, and its predecessor, Export Credits Insurance Act, *R.S., c.105*	328,744,000	332,966,000	369,387,000
Home improvement loans under the National Housing Act, 1954	22,048,000	21,116,000	20,209,000
	$ 9,760,573,000	$ 8,971,183,000	$ 8,335,880,000

Among the contingent liabilities of indeterminate amount is that in respect of loans made by approved lending institutions under National Housing Acts prior to 1954.

Comments on Assets and Liabilities

209. Section 64 of the Financial Administration Act requires that there be included in the Public Accounts "a statement, certified by the Auditor General, of such of the assets and liabilities of Canada as in the opinion of the Minister [of Finance] are required to show the financial position of Canada as at the termination of the fiscal year".

210. The Statement of Assets and Liabilities as at March 31, 1970 was prepared by the Receiver General on the same basis as in previous years, the following explanation concerning this basis being included in the introduction to the Public Accounts:

> With certain exceptions, taxes and revenues receivable, revenue and other asset accruals and inventories of materials, supplies and equipment are not recorded as assets (except when these are held as charges against working capital accounts) nor are public works and buildings or other fixed or capital assets. Following the principle that only realizable or interest- or revenue-producing assets should be offset against the gross liabilities, costs of capital works are charged to expenditures at the time of acquisition or construction. Consequently government buildings, public works, national monuments, military assets (such as aircraft, naval vessels, and army equipment) and other capital works and equipment are recorded on the statement of assets and liabilities at a nominal value of $1 as the value is not considered as a proper offset to the gross liabilities in determining the net debt of Canada.
>
> On the liabilities side, accrued liabilities (except for interest accrued on the public debt) are not taken into account in determining the obligations of the government. However, under section 35 of the Financial Administration Act, liabilities under contracts and other accounts payable at March 31 if paid on or before April 30 may be charged to the accounts for the year. These are recorded as accounts payable in the "Current and demand liabilities" schedule to the statement of assets and liabilities.

This explanation reflects a policy established by the Minister of Finance in 1920, that assets to be included in the Statement of Assets and Liabilities should be confined to those which are readily convertible or which are revenue-producing. The Minister had immediately implemented this policy by removing from the Statement of Assets and Liabilities a substantial amount in loans, etc., which could not meet this test.

This policy has been followed by successive Ministers of Finance ever since but a major exception was introduced in 1957-58 when funds required by the National Capital Commission for the purchase of lands in the Greenbelt were recorded as loans to the Commission instead of budgetary expenditure as had formerly been the case. They were given the appearance of being revenue-producing by asking Parliament to appropriate money to the National Capital Commission with which to pay interest on the loans. The practice was later extended to the financing of other agencies.

Brief details of exceptions to established policy, some of which we have commented on in previous Reports (paragraph 229 in 1969), are as follows:

Loans to, and investments in, Crown corporations

CANADIAN BROADCASTING CORPORATION. Funds required by the Corporation for capital expenditure since April 1, 1964 have been provided in the form of loans. Loans outstanding at March 31, 1970 amounted to $112,005,000. Each loan is repayable in equal annual instalments over 20 years at interest rates varying from $5\frac{1}{4}\%$ to $8\frac{1}{2}\%$.

CANADIAN NATIONAL RAILWAYS. An amount of $735,000 was provided to the Canadian National Railways under authority of Transport Vote 542, Appropriation Act No. 4, 1954, *1953–54, c. 67*, and Transport Vote 546, Appropriation Act No. 5, 1955, *1955, c. 60*, towards the construction cost of a new dock and facilities at Bar Harbour, Maine, U.S.A. The loan, which does not bear interest, has been reduced, by annual payments of about $25,000, to $392,000 at March 31, 1970. These annual payments are charged as an operating cost of the ferry service, thus increasing the annual deficit of that service which is provided for by an annual appropriation of Parliament.

NATIONAL CAPITAL COMMISSION. Funds required by the Commission for the purchase of Greenbelt lands and certain other lands have, since 1957–58, been provided in the form of loans from Canada which amounted to $67,128,000 at March 31, 1970, comprising loans of $37,447,000 for acquiring Greenbelt lands and $29,681,000 for acquiring other lands. These loans bear interest at rates varying from 4% to $8\frac{7}{16}\%$ and are repayable only if and when the properties are sold or put into use by the Government for other than Greenbelt purposes.

NORTHERN CANADA POWER COMMISSION. An amount of $300,000 was provided to the Commission in the form of an interest-free loan from Canada in 1967 for the purpose of reconstructing the water supply system at Dawson, Y.T. The loan, which is repayable on completion of the work from funds appropriated by Parliament as a grant to the Government of the Yukon Territory, was still outstanding on March 31, 1970 although the work was declared completed on March 31, 1969.

Other loans and investments

GOVERNMENT OF THE NORTHWEST TERRITORIES. Of the loans to the Government of the Northwest Territories amounting to $20,917,000 at March 31, 1970, an aggregate of $19,604,000 represents loans made in the years 1959 to 1970 for capital expenditure purposes. The loans are repayable over periods of from 5 to 20 years and bear interest at rates varying from $4\frac{1}{8}\%$ to $8\frac{1}{2}\%$. By agreement, Canada pays an annual amortization subsidy equivalent to the principal and interest due each year, less all moneys repaid to the Territorial Government in the year by local administrative districts in respect of loans made to them by the Territories from moneys borrowed from Canada.

GOVERNMENT OF THE YUKON TERRITORY. Of the loans to the Government of the Yukon Territory amounting to $20,496,000 at March 31, 1970, an aggregate of $16,604,000 represents loans made during the years 1958 to 1970 for capital expenditure purposes. The loans are repayable over periods of from 5 to 30 years and bear interest at rates varying from $4\frac{1}{8}\%$ to $8\frac{1}{2}\%$. By agreement, Canada pays an annual amortization subsidy equivalent to the principal and interest due each year, less all moneys repaid to the Territorial Government in the year by local administrative districts in respect of loans made to them by the Territory from moneys borrowed from Canada.

The Public Accounts Committee holds the view that outlays on property in the Greenbelt are expenditures of the Crown rather than income-producing investments

and on two occasions requested the Department of Finance to review the practice with the National Capital Commission, with a view to placing the financing of the Commission on a more realistic basis. (See Appendix 1, item 7.) In its Seventh Report 1966-67 the Public Accounts Committee stated that it was disturbed to learn that not only was no review undertaken by the Department of Finance in the case of the National Capital Commission, but that the practice was continued and further extended in 1964-65 when the House was asked to approve loans to the Canadian Broadcasting Corporation. The Committee reiterated its opinion that "expenditures of this type are not loans or advances which can or should be regarded as revenue-producing assets but are in fact grants and should be charged directly to budgetary expenditure in the Public Accounts of Canada". (See Appendix 1, item 22.)

The National Capital Commission has now received a directive from the Treasury Board with respect to loans for the purchase of property other than in the Greenbelt under which, starting with 1970-71, loans will be provided only to acquire, improve and service properties which are to be sold to other users, thereby enabling the Commission to repay the loans. The Commission is to provide in its future budgetary appropriations for the pay-back of loans which were used to purchase land which is not for resale.

Additional exceptions noted during the year originated with three loan votes authorizing loans in the current and subsequent fiscal years, to stipulated maximum amounts, for capital expenditures at the Montreal, Toronto and Vancouver International Airports and for the acquisition and construction of ferry vessels and related equipment. Moneys advanced under these authorities and recorded under "Other loans and investments" are not loans but are in fact funds provided for the acquisition of capital assets. Brief details of these exceptions to established policy follow:

Other loans and investments—Miscellaneous

AIRPORT CAPITAL LOANS. During the year capital expenditure totalling $23,253,000 at the Montreal and Toronto International Airports was charged to the Airports Revolving Fund pursuant to Transport Vote L160, Appropriation Act No. 3, 1969, *1968–69, c.36*, which authorized the operation of the Fund. To the extent of $18,127,000, this capital expenditure was financed from revenue under authority of Transport Vote L160, with the remaining $5,126,000 being provided from Transport Vote L165 which authorizes loans up to $15,094,000 for capital expenditure at these two airports in the 1969–70 and subsequent fiscal years.

VANCOUVER INTERNATIONAL AIRPORT—CONSTRUCTION OF BRIDGES. At March 31, 1970 a total of $2,978,000 had been paid from Transport Vote L110b, Appropriation Act No. 1, 1969, *1968–69, c.23*, to contractors for work performed. This Vote authorizes loans to an amount of $17,125,000 in the 1968–69 and subsequent fiscal years to finance the construction of bridges and a network of arterial roads to improve transportation to the Vancouver International Airport. Present planning contemplates the levy of tolls in respect of this network which together with other receipts are to be applied to expenditures associated with the network, including payments of interest and principal on these loans.

CONSTRUCTION AND ACQUISITION OF FERRY VESSELS AND RELATED EQUIPMENT. Amounts totalling $5,722,000 at March 31, 1970 were paid out under the authority of Transport Vote L107b, Appropriation Act No. 1, 1969, which authorizes loans up to $16,000,000 in

1968–69 and subsequent years for the purchase of a ferry vessel and the construction of two additional ferries. Annual payments of principal and interest, to begin in the year in which each vessel enters service, are to be charged as operating costs and included in the Prince Edward Island Ferry Service Deficit, which is provided for by means of an annual parliamentary appropriation.

Under the policy outlined at the beginning of this section, the cost of government buildings, vessels and other capital works and equipment is charged to expenditure at the time of acquisition or construction because departments are dependent on public revenue for their capital needs. The Crown corporations and other bodies referred to previously are also dependent on public revenue for their capital needs.

These exceptions to long-standing policy have had the effect of understating the Deficit or overstating the Surplus in the Public Accounts each year since 1958. To the extent that parliamentary appropriations are required in later years to provide for repayment of the loans, and in some cases the interest thereon, the Deficit will increase or the Surplus decrease in those years. (See paragraph 54 of this Report.)

If certain capital assets are to be included in the Statement of Assets and Liabilities in future, then a formal change of policy is required and steps should also be taken to bring all similar capital assets on to the Statement. Furthermore, the assets should be described as capital assets and should not be categorized as loans, which is incorrect.

211. *Accounts receivable.* Taxes and sundry accounts receivable are not recorded as assets in the Statement of Assets and Liabilities but information regarding the accounts receivable for each department at March 31, in comparison with the corresponding information at the close of the preceding year, is given in the several departmental sections of Volume II of the Public Accounts.

A summary of the accounts receivable totals by department is included as Appendix 13 on page 10.29 of Volume I of the Public Accounts. The summary shows a total of $418 million receivable at March 31, 1970 of which $18 million is classified as uncollectable. The comparable figures at March 31, 1969 were $341 million and $15 million.

The accounts receivable totals at March 31, 1970 were the amounts remaining after certain debts had been deleted from the accounts under the following authorities:

	Items	Amount
Appropriation Act No. 1, 1970, *1969-70, c. 24*—Treasury Board Vote 7b—amounts in excess of $5,000	191	$ 4,542,000
Financial Administration Act—section 23—amounts of $5,000 or less	12,502	2,940,000
Bankruptcy Act, *R.S., c. 14*—section 135—discharged bankrupts	1,070	1,928,000
Unemployment Insurance Act, *1955, c. 50*—		
section 42—unpaid contributions	1,427	221,000
section 67—overpaid benefits	3,293	248,000
Department of Justice Act, *R.S., c. 71*—section 5d	2	4,000
	18,485	$ 9,883,000

A summary of deletions by department follows:

	Items	Amount
External Affairs—		
Department	259	$ 23,000
Canadian International Development Agency	1	2,000
	260	*25,000*
Fisheries and Forestry	87	23,000
Indian Affairs and Northern Development	2,802	263,000
Labour—		
Unemployment Insurance Commission	34	1,000
Unemployment Insurance Fund	4,720	469,000
	4,754	*470,000*
Manpower and Immigration	82	7,000
National Defence	587	37,000
National Revenue—		
Customs and Excise Division	623	1,320,000
Taxation Division	8,207	7,687,000
	8,830	*9,007,000*
Solicitor General—		
Correctional Services	11	3,000
Royal Canadian Mounted Police	51	13,000
	62	*16,000*
Transport	364	12,000
Veterans Affairs	305	9,000
Other	352	14,000
	18,485	$ 9,883,000

Included in the accounts receivable were amounts totalling $6,091,000, compared with $2,876,000 in the previous year, representing interdepartmental accounts which should have been settled before the books were closed for the year. Of this amount, $91,000 remains outstanding from prior years. A listing, by department, of amounts due from other government departments at March 31, 1970 follows:

	Accounts arising in	
	Current year	Prior years
Energy, Mines and Resources	$ 5,000	$ 2,000
External Affairs	5,000	11,000
Finance	—	2,000
Fisheries and Forestry	36,000	—
Indian Affairs and Northern Development	128,000	42,000
Industry, Trade and Commerce	15,000	3,000
Justice	2,000	—
National Defence	124,000	—
National Health and Welfare	192,000	—
National Revenue—Customs and Excise	17,000	—
Public Works	2,050,000	8,000
Solicitor General—Correctional Services	92,000	—
Supply and Services—Public Printing and Stationery	29,000	1,000
Transport	3,096,000	19,000
Treasury Board—National Research Council of Canada	191,000	—
Veterans Affairs	18,000	3,000
	$ 6,000,000	$ 91,000

These accounts were not settled due to delays in submitting billings, delays by debtor departments in processing invoices and, in some cases, debtor departments not having sufficient funds in their appropriations. An example of the last is $145,000 owing to the Department of Transport and $82,000 owing to the Department of Public Works by the Department of Indian Affairs and Northern Development.

Not included in these accounts is the amount of $1,020,000 paid by the Canadian International Development Agency in 1970-71 from the International Assistance Account but recorded by the seven receiving departments as 1969-70 business (see paragraph 58 of this Report). Also not included is an amount of $95,000 owing by this Agency to the Department of External Affairs. Because there were insufficient funds in the Agency's 1969-70 appropriation, the amount was paid after the year-end from the Agency's 1970-71 appropriation. However, the payment was received by the Department of External Affairs in time to be recorded as a 1969-70 receipt and therefore the account was not recorded as outstanding at March 31, 1970.

In previous Reports (paragraph 230 in 1969) we have drawn attention to the fact that some departments were not keeping their accounts receivable accurately and efficiently in that they were not maintaining control accounts or providing for an effective verification of the accounts by officers other than those responsible for keeping them. In last year's Report we stated that there had been general improvement in these accounts as the result of the development of a Treasury Board policy with respect to revenue control, and further improvement was noted during the year. However, test examinations indicated that in some departments the handling of accounts receivable still falls short of desirable standards. Comments on these departments along with pertinent information with regard to the receivables of other departments are set forth in the ensuing paragraphs.

212. *Accounts receivable—Department of National Revenue.* Of the $418 million of accounts receivable at March 31, 1970, $353 million relates to the Department of National Revenue. With the co-operation of the officials of the Customs and Excise Division and the Taxation Division of the Department, analyses have been prepared showing the nature and amounts of the unpaid accounts of these Divisions.

CUSTOMS AND EXCISE DIVISION. The following is a summary of the accounts receivable of this Division at March 31, 1970 with comparable amounts at the close of the previous year:

	March 31, 1970	March 31, 1969
Excise taxes	$ 14,362,000	$ 9,726,000
Duties and taxes on importations	3,230,000	3,309,000
Customs seizures	1,476,000	1,747,000
Investigations	127,000	133,000
Interdepartmental	17,000	649,000
Sundry	14,000	8,000
	$ 19,226,000	$ 15,572,000

Of the total of $19.2 million, collection action was being taken on 10,097 accounts totalling $5.9 million. The remaining $13.3 million had not been collected for the following reasons:

Under appeal	3,022 accounts	$ 6,993,000
Insolvencies	1,063 accounts	4,854,000
Uncollectable	457 accounts	1,447,000
	4,542 accounts	$ 13,294,000

Further details of these accounts receivable are to be found in the report of the Department of National Revenue for the year ended March 31, 1970 and on page 16.14 of Volume II of the Public Accounts.

These accounts receivable do not represent all moneys owing to the Division at March 31, 1970. They do not include duties and taxes owing on goods that have been imported illegally where the Minister had not rendered a decision as to the penalties to be imposed, and the unpaid portion of duties and taxes on temporary importations from which relief is being sought from the Governor in Council.

Of the $14.4 million of excise taxes receivable, which includes $1.4 million in penalties, the Department estimates that $1.5 million will not be collected.

There is no requirement that interest be charged on overdue accounts although a monthly penalty of $\frac{2}{3}$ of 1% is charged on overdue excise taxes.

In previous Reports (paragraph 231 in 1969) we have stated that the Customs and Excise Division was preparing to extend the system of control accounts to include all receivables. This has not yet been accomplished but in general its system of control over receivables has been improved by providing for an effective record of individual accounts.

During the year 623 accounts amounting to $1,320,000 were deleted under authority of:

	Items	Amount
Appropriation Act No. 1, 1970, *1969–70, c. 24*—Treasury Board Vote 7b	66	$ 878,000
Financial Administration Act—section 23	528	384,000
Bankruptcy Act, *R.S., c. 14*—section 135	28	56,000
Department of Justice Act, *R.S., c. 71*—section 5d	1	2,000
	623	$ 1,320,000

TAXATION DIVISION. The following is a summary of the accounts receivable of this Division at March 31, 1970 with comparable amounts at the close of the previous year:

	March 31, 1970	March 31, 1969
Income tax—		
Individuals	$ 171,144,000	$ 143,499,000
Corporations	113,771,000	96,036,000
Tax deductions	18,789,000	13,077,000
Non-residents	4,051,000	3,964,000
Deferred tax	4,563,000	4,757,000
	312,318,000	*261,333,000*
Estate tax and succession duty	20,992,000	15,405,000
Sundry	12,000	5,000
	$ 333,322,000	$ 276,743,000

Of the total of $333 million receivable at March 31, 1970, $96 million (29%) represented 67,758 accounts which were undergoing the normal collection process. The remaining $237 million had not been collected for the following reasons:

Current assessments	254,204 accounts	$ 67,379,000
Uncollectable	12,242 accounts	12,282,000
Bankrupts	5,685 accounts	18,918,000
Under appeal	1,822 accounts	133,666,000
Deferred tax	3,160 accounts	4,563,000
	277,113 accounts	$ 236,808,000

Further details of these accounts receivable are to be found in the report of the Department of National Revenue for the year ended March 31, 1970 and on pages 16.14 and 16.15 of Volume II of the Public Accounts.

During the year 8,207 accounts amounting to $7,687,000 were deleted under authority of:

	Items	Amount
Appropriation Act No. 1, 1970—Treasury Board Vote 7b	125	$ 3,665,000
Financial Administration Act—section 23	7,040	2,150,000
Bankruptcy Act—section 135	1,042	1,872,000
	8,207	$ 7,687,000

213. *Accounts receivable—Department of External Affairs.* The accounts receivable of this Department include an amount of $1,704,000 owing to Canada from the fund known as the "Common Pool" established by the Geneva Conference on the problem of restoring peace in Indo-China. An additional amount of $1,270,000 is recoverable on behalf of the Department of National Defence. This total of $2,974,000, an increase of $202,000 over the preceding year, represents certain costs incurred by Canada as far

back as 1960-61 in serving on the Indo-China Truce Commissions. No payment has been received from the "Common Pool" since February 1963 but Canada's assessments towards financing the Laos International Commission since 1962-63, amounting to $222,000 ($29,000 in 1969-70), have been applied against the indebtedness.

We understand that the failure of The People's Republic of China to continue its contributions has resulted in the "Common Pool" being unable to pay all of the costs for which it is responsible.

As has been pointed out in previous Reports (paragraph 232 in 1969), in the absence of any reimbursement from the "Common Pool" in recent years, new financing arrangements should be sought.

214. *Accounts receivable—Department of Indian Affairs and Northern Development.* The accounts receivable of this Department at March 31, 1970 amounted to $1,791,000, including uncollectable accounts of $395,000.

In our past four Reports (paragraph 233 in 1969) we have referred to shortcomings in the Department's handling of accounts receivable. Our review of the accounts outstanding at March 31, 1970, while revealing some improvement in the reporting of the accounts, also disclosed major omissions and inadequacies in assembling the information in final statement form. However, subsequent to the year-end a departmental task force was established to review the systems for the control, recording, collection and write-off of accounts receivable and to formulate recommendations which, when implemented, would result in a fully appropriate system.

215. *Accounts receivable—Department of Manpower and Immigration.* In our 1969 Report (paragraph 234) we referred to omissions in the compilation of the accounts receivable of this Department and to the lack of proper controlling accounts. At March 31, 1970 control accounts had not been established for accounts totalling $409,000 and accounts totalling $680,000 were not in agreement with their respective control accounts.

216. *Accounts receivable—Department of National Health and Welfare.* Examinations during the year of the records of four of the Department's fourteen hospitals disclosed that considerable improvement was required in both the control and collection of accounts receivable. At one hospital there was no control account, while at another the control account was of little value because the posting of entries was nine months in arrears. Billings for out-patient services were two months in arrears at one hospital and recovery of certain ambulance charges, which were payable under the provincial hospital plan, was overlooked at another location. When the accounts receivable ledger cards at one hospital were abandoned and new cards set up in October 1967, the balances on the original cards, amounting to approximately $147,000, were not carried forward to the new cards although no authority had been obtained for the write-off of these balances.

217. *Accounts receivable—Department of Public Works.* The accounts receivable of this Department at March 31, 1970 were overstated by $1,355,000 due to the inclusion of accounts receivable which had been settled before the books were closed.

218. *Accounts receivable—Department of Transport.* The accounts receivable of this Department amounted to $7,658,000 at March 31, 1970, compared with $6,539,000 at March 31, 1969.

Included in the amount reported at the year-end is $3,096,000 represented as interdepartmental accounts receivable. This amount includes interdepartmental accounts receivable of $446,000 which had been settled prior to the year-end, and accounts receivable of $2,385,000 due from various Crown corporations which should not have been reported within the interdepartmental category.

In our 1969 Report (paragraph 235) reference was made to the reports of the Department's internal audit staff which had recommended a review of collection and write-off practices, to be followed by the preparation of detailed written procedures. Although written procedures were prepared by the Department and issued in 1969 and 1970, it is apparent that the impact of these revised procedures is yet to be felt in the reporting of accounts receivable by the Department.

219. *Cash on deposit in chartered banks.* Included in the item "Cash" is an amount of $831.8 million on deposit in bank accounts. Of this amount, $806 million was on deposit in the chartered banks in Canada, $2.5 million in the Bank of Canada and $23.3 million in banks in London, New York, Paris, Brussels and Bonn.

The balances on deposit in bank accounts abroad are working balances against which cheques are drawn and which do not earn interest. The Bank of Canada, in accordance with the provisions of section 19(e) of the Bank of Canada Act, *R.S., c.13,* does not pay interest on deposits. However, profits of the Bank of Canada are paid to the Receiver General and placed to the credit of the Consolidated Revenue Fund.

Balances on deposit in the chartered banks in Canada earn interest only on the amounts by which the aggregate of the lowest daily balance for each bank in each week exceeds $100 million, calculated at the weekly average accepted treasury bill tender rate for the three months treasury bills, less 10%. (See paragraph 66 of this Report.)

220. *Departmental working capital advances.* This item, amounting to $200,962,000 at March 31, 1970, comprises a number of revolving funds and working capital advances, established by Appropriation Acts and other statutes.

In the following instances balances include: capital assets, which under the policy referred to in paragraph 210 should not be included as assets in the Statement of Assets and Liabilities; operating deficits or undistributed expense, which are not assets; and long-term stockpiles of materials which should be shown as a separate category in the

Statement of Assets and Liabilities and should not be financed out of working capital advances:

1. The National Film Board Operating Account and the Computer Services Bureau Revolving Fund included capital expenditures of $142,000 and $165,000 and the Bureau's Revolving Fund includes a deficit of $699,000, which is to be recovered from a future parliamentary appropriation. (See paragraphs 288 and 285 of this Report.)
2. The Government Telephone Account, operated by the Department of Communications, included undistributed expense of $111,000 at March 31, 1970. The amount represents expense incurred during 1969–70 and should have been charged to the relative departments as an expense of the year.
3. The Department of Energy, Mines and Resources account "Stockpiling of uranium concentrates" records the accumulated cost of acquiring, refining and storing uranium concentrates since 1963–64 which amounted to $94,621,000 at March 31, 1970. Industry, Trade and Commerce Vote L77d, Appropriation Act No. 2, 1966, *1966–67, c. 3*, authorizes purchases up to $135,000,000.
4. One of the purposes of the Defence Production Revolving Fund is to finance the stockpiling of strategic materials and the balance of the Fund at March 31, 1970 included strategic materials having a book value of $964,000 (see paragraph 163 of this Report). Also included in the balance at March 31, 1970 was a trading loss of $104,000 with respect to strategic materials, which is to be recovered from a future parliamentary appropriation.

221. *Loans to, and investments in, Crown corporations—Atomic Energy of Canada Limited.* Included in the loans to Atomic Energy of Canada Limited totalling $328,-370,000 are the following amounts, exclusive of accrued interest, relating to construction of nuclear power stations at:

Douglas Point, Ont.	$ 69,945,000
Gentilly, Que.	58,000,000
Pickering, Ont.	58,400,000

The Douglas Point nuclear power station, a prototype station started up in 1967-68, has incurred commissioning costs and operating losses of $2 million in 1967-68, $2.4 million in 1968-69 and $3.6 million in 1969-70. No provision is made for depreciation. The Gentilly nuclear power station has not yet started up on an operational basis.

After the Douglas Point and Gentilly stations have been established to be safe and dependable sources of power, they are to be sold to the provincial power commissions at prices calculated to make the estimated future cost of energy produced equal to that from fossil-fired conventional thermal generating stations. Whether the selling prices will be sufficient to permit the Company to repay the loans remains to be determined.

The Company's portion of the cost of the Pickering nuclear power station is expected to be recovered from the Hydro-Electric Power Commission of Ontario but this is dependent on the success achieved in the operation of the station.

222. *Loans to, and investments in, Crown corporations—Canadian Dairy Commission.* Loans to the Canadian Dairy Commission which amounted to $45,167,000 at March 31, 1970 were used by the Commission to purchase dairy products at domestic

market support prices. Inventories of butter, skim milk powder and cheese held by the Commission at March 31, 1970 had been acquired at a cost of $47,321,000 but had a realizable value of only $27,878,000 at that date. The difference of $19,443,000 was charged to subsidies on disposal of surplus dairy products, thereby increasing the Commission's accumulated deficit to $25,386,000.

The Commission was in no position to repay that portion of the loans, $25,386,000, which was financing the accumulated deficit of the Corporation at March 31, 1970 without recourse to an appropriation by Parliament and that amount was not an asset of Canada at that date.

223. *Loans to national governments—Special assistance loans to developing countries.* Since 1964-65, Appropriation Acts have authorized a total of $483 million in special loan assistance to developing countries and agreements to lend have been entered into with 30 countries and two regional development banks. At March 31, 1970, $173,756,000 had been disbursed to 21 countries under these loan agreements, an increase of $81,125,000 in the year. These loan disbursements may be classified as follows:

Repayable over 40 years, following a grace period of 10 years from the date of execution of each agreement—		
Interest-free	45 loans	$ 124,862,000
Interest at ¾ of 1% per annum, on the amount of the loans committed less repayments	24 loans	36,380,000
Repayable over 30 years, following a grace period of 10 years—		
Interest-free	1 loan	878,000
Repayable over 30 years, following a grace period of 5 years—		
Interest at ¾ of 1% per annum, on the amount of the loans committed less repayments	1 loan	3,240,000
Repayable over 23 years, following a grace period of 7 years—		
Interest at 3% per annum	11 loans	4,972,000
Repayable over 20 years, following a grace period of 5 years—		
Interest at 6% per annum	1 loan	3,424,000
		$ 173,756,000

224. *Other loans and investments—Provincial governments—Quebec's share re guarantee 1967 World Exhibition loans.* In last year's Report (paragraph 243) we reported that in July 1968 the Province of Quebec had delivered to Canada notes in the amount of $74,450,000 in connection with its liability with respect to the Canadian Corporation for the 1967 World Exhibition. The notes of the Province are payable in 48 monthly instalments of $1,551,000 each with interest at 5.46%. At March 31, 1969 nine monthly instalments had been paid leaving notes totalling $60,491,000 which were not yet due.

In May 1969 the Province delivered to Canada additional notes of the Province in the amount of $10,779,000 in connection with the liability of the City of Montreal with respect to the Canadian Corporation for the 1967 World Exhibition. These notes are repayable in instalments, with interest at 5.46%, between October 1, 1969 and April 1, 1977.

The Province, pursuant to the provisions of the Expo Winding-up Act, *1969-70, c.1,* was authorized by the Governor in Council to defer until 1972 the payment of notes falling due in 1969-70 up to an amount not exceeding $5,500,000. Accordingly, four notes of $1,551,000 each payable between December 1, 1969 and March 1, 1970 were replaced by a 5.46% interest-bearing note of $704,000 payable on March 1, 1970 and three non-interest-bearing notes of $1,551,000 each payable between July 1, 1972 and September 1, 1972 and one of $847,000 payable on October 1, 1972.

During the year the Province paid instalments of $13,325,000, leaving notes totalling $57,945,000 which were not yet due

225. *Other loans and investments—City of Montreal notes re 1967 World Exhibition.* On April 1, 1969 the City of Montreal issued its notes in the amount of $14,371,000 payable to Canada in connection with the City's share of the estimated final deficit of the Canadian Corporation for the 1967 World Exhibition. (See paragraph 63 of this Report.) These notes are payable in instalments, with interest at 5.46%, between October 1, 1969 and April 1, 1977. The instalment of $289,000 due on October 1, 1969 was paid, leaving a balance of $14,082,000 at the year-end which was not yet due.

226. *Other loans and investments—Investment in shares of Panarctic Oils Ltd.* In our 1969 Report (paragraph 246) we noted that Canada had joined a consortium of twenty participants, including leading Canadian oil and mining companies, for a three-year oil exploration program in Canada's Arctic islands. Panarctic Oils Ltd. was incorporated for this purpose and Canada agreed to purchase sufficient shares of capital stock in the Company to maintain a 45% equity. Initial financing involved $20,050,000 in the form of preferred and common stock but the agreement provided that the program could be enlarged to $30,100,000. Canada has two representatives on the Board of Directors, comprising fourteen members, but may appoint additional directors proportionate to its equity if and when it desires to do so.

At March 31, 1969 Canada had paid $5,012,500 on its subscription to shares in the Company. These shares were recorded in the accounts at the nominal value of $1, having been financed from expenditure appropriations. During 1969-70 Canada made further payments of $8,521,250 on its subscription, $4,010,000 having been provided by expenditure appropriation and $4,511,250 by loan vote in respect of the extension of the program to $30 million. In order to maintain consistency in the accounting treatment of the investments, the portion that had been charged to expenditure and carried at a nominal value was revalued at cost, $9,022,500, thereby increasing to $13,533,750 the total investment by Canada at March 31, 1970.

Financial statements of the Company show exploration costs of $18,365,000 from the date of its incorporation to December 31, 1969, including drilling expense of $9,217,000.

227. *Other loans and investments—Loans to Telesat Canada for the development of space and terrestrial communications.* Vote L5, Appropriation Act No. 3, 1969, *1968-69, c.36,* provided $9,850,000 for loans in the current and subsequent fiscal years for the development of space and terrestrial communications undertakings and systems. During the year loans aggregating this amount were made to Telesat Canada to finance the capital and operating expenditures of the Company until it received the proceeds from the sale of capital stock.

The loans were repaid in December 1970 following issuance of two million shares of common stock by the Company, one million of which were issued to Canada for $10 million.

The Company's fiscal year ends on December 31 and copies of its financial statement and auditor's report are required by section 37 of the Telesat Canada Act, *1968-69, c.51,* to be laid before Parliament by the Minister of Communications. A firm of chartered accountants appointed by the shareholders is the auditor of the Company.

228. *Other loans and investments—Other balances—Regional Economic Expansion—infrastructure development.* Vote L130, Appropriation Act No. 3, 1969, *1968-69, c.36,* provided funds for loans by the Department of Regional Economic Expansion in accordance with agreements entered into (by the Atlantic Development Board, before it ceased operations on April 1, 1969), or to be entered into, with the provinces for the development of infrastructures. The term infrastructure in this context means a sound foundation for long-term economic growth including the availability of electric power, modern trunk highways, serviced industrial land, water and facilities for applied research. Under this authority, loans totalling $4,662,000 for the development of water supply systems at various locations were made during the year and at March 31, 1970 an amount of $4,615,000 was recorded under the asset item "Other loans and investments". This latter amount is incorrect, revenue items totalling $47,000 having been credited to the loan accounts in error.

Not included in this asset item are loans amounting to $1,741,000, made by the Atlantic Development Board before it ceased operations, which were charged to expenditure in the year in which they were made. The actual loans outstanding at March 31, 1970, which were made in or prior to 1969-70, were:

Province	1969–70	Prior to 1969–70	Total
Newfoundland	$ 17,000	$ 814,000	$ 831,000
Nova Scotia	4,449,000	—	4,449,000
New Brunswick	196,000	892,000	1,088,000
Prince Edward Island	—	35,000	35,000
	$ 4,662,000	$ 1,741,000	$ 6,403,000

Provision is made in some of the agreements for the Crown to absorb a substantial share of the cost of any spare capacity in the water systems during the first ten years of their existence. Although there is as yet no statutory authority for meeting this commitment by means of forgiveness of a portion of the loans, we understand that provision for this is to be included in the Department's estimates for 1971-72.

In our opinion, the total of these loans, which was $6,403,000 at March 31, 1970, should be recorded in that amount under the asset item "Other loans and investments", with an appropriate provision for the amount that may eventually be forgiven.

229. *Other loans and investments—Other balances—Dominion Coal Company Limited.* In previous Reports (paragraph 244 in 1969) we have drawn attention to arrears of principal and interest on loans made under the provisions of the Coal Production Assistance Act, *R.S., c.173,* administered by the Dominion Coal Board. On May 1, 1970 the Act was repealed and the Dominion Coal Board dissolved. The loans are now administered by the Department of Energy, Mines and Resources.

Particular reference was made to loans totalling $7,261,000 made to Dominion Coal Company Limited in the period November 1950 to July 1963. These loans have been in default since December 31, 1964 and the principal still owing amounts to $4,522,000. Interest in default at March 31, 1970 amounted to $418,000 having been reduced by $683,000, the amount of a final subvention adjustment which was applied against the interest in default. The adjustment related to the period prior to the Company ceasing coal mining operations in 1968.

The Cape Breton Development Corporation, a Crown corporation, took over certain of the Company's properties and operations in 1968 but the cost of acquisition has not yet been determined. (See paragraph 158 of this Report.)

230. *Other loans and investments—Other balances—Canadian Arctic Producers Limited.* Vote L51b, Appropriation Act No. 1, 1970, *1969-70, c.24,* authorized the purchase in the current and subsequent fiscal years of five common shares of Canadian Arctic Producers Limited for an amount not exceeding $1,000 and 400,000 of the Company's 7% non-cumulative redeemable preferred shares for $400,000. Also authorized was the making of loans to the Company, in the current and subsequent fiscal years, in an amount not exceeding $250,000 on such terms and conditions as the Governor in Council may prescribe.

During the year the shares were acquired at the approved price of $401,000 and are recorded in that amount under the asset item "Other loans and investments". No loans were made in 1969-70.

Canadian Arctic Producers Limited was incorporated in 1965 by the Co-operative Union of Canada as a non-profit organization to promote the sales and marketing of northern arts and crafts, and since then has been financed in part through contracts with the Department of Indian Affairs and Northern Development. The present arrangement

is intended to enable the Company to become a viable marketing entity by providing capital unobtainable from other sources. It is anticipated that the preferred shares will be redeemed within 15 years, with co-operatives gradually assuming control of the operation.

Two persons, one from the Federal Government and the other from the Government of the Northwest Territories, have been appointed to hold the shares in trust for the Crown. The nine members of the Board of Directors, of the 12 provided for, include two representatives of the Department and one of the Territorial Government.

231. *Deposit and trust accounts—"Other"—Public Officers Guarantee Account.* The Public Officers Guarantee Account, established by section 98 of the Financial Administration Act, provides that payments may be made from the Account by way of indemnity for losses suffered by Her Majesty or others by reason of defalcations or other fraudulent acts or omissions of public officers. The Treasury Board on January 19, 1967 directed that unless losses due to defalcations can be recovered in the fiscal year in which they occur, the Board's authority to reimburse the losses from the Account is to be sought before the year-end.

No losses were charged to the Account during the year, and despite the long-standing Treasury Board directive the following departments have failed to initiate the transfer to the Account of 14 losses totalling $11,981 at March 31, 1970 (see paragraph 181 of this Report).

	Losses discovered in			
	1969-70		Prior years	
Department	Number	Amount	Number	Amount
External Affairs	1	$ 384		$
Indian Affairs and Northern Development	1	308		
Justice			1	100
Labour			2	1,624
National Defence	3	933	4	1,177
National Revenue—Customs and Excise	1	6,536		
Transport	1	919		
	7	$ 9,080	7	$ 2,901

232. *Annuity, insurance and pension accounts—Royal Canadian Mounted Police Superannuation Account.* Section 24 of the Royal Canadian Mounted Police Superannuation Act, *1959, c.34,* requires that at least once in every five years an actuarial report on the state of the Force's Superannuation Account be laid before Parliament. The latest valuation of the Account was at December 31, 1964. We understand that an actuarial valuation as at December 31, 1969 is being made.

233. *Unmatured debt.* Included in the unmatured debt, amounting to $22,637 million at March 31, 1970, are the following treasury bills and bonds totalling $4,657 million which mature within the ensuing fiscal year:

Treasury bills due within—	
three months	$ 1,765,000,000
six months	880,000,000
308 days	175,000,000
364 days	75,000,000
	2,895,000,000
Loan of 1958 due May 1, 1970	200,000,000
Loan of 1968 due May 1, 1970	50,000,000
Loan of 1969 due May 1, 1970	125,000,000
Loan of 1965 and 1966 due July 1, 1970	175,000,000
Loan of 1966 and 1967 due July 1, 1970	140,000,000
Loan of 1969 due July 1, 1970	130,000,000
Loan of 1968 due October 1, 1970	380,000,000
Loan of 1970 due October 1, 1970	70,000,000
Canada Savings Bonds, 1957, due November 1, 1970	39,034,000
Canada Savings Bonds, 1960, due November 1, 1970	43,870,000
Loan of 1966 due December 15, 1970	300,000,000
Loan of 1969 due December 15, 1970	75,000,000
Notes of 1968, payable in Italian lire, due May 15, 1970	34,595,000
	1,762,499,000
	$ 4,657,499,000

Although debt falling due within one year is normally regarded as a current liability, no portion of this unmatured debt, $2,175 million of which falls due within the first three months of the ensuing year, has been included with the "Current and demand liabilities" in the Statement of Assets and Liabilities at March 31, 1970.

234. *Contingent liabilities—Action for damages.* In our 1969 Report (paragraph 250) reference was made to a collision between two vessels in the St. Lawrence River down stream from Sorel, Que., which resulted in the total loss of one of the vessels.

By petition of right, action for damages involving in excess of $5 million was taken against the Crown by suppliants who included underwriters, insurers and consignees of the cargo of the sunken vessel. The suppliants alleged that the collision had been caused by the displacement of a range light, under the control of the Department of Transport, which guided one vessel so close to the south bank that it sheered, crossed the navigation channel and collided with the other vessel. The judgment of the Exchequer Court of Canada, pronounced in September 1968, maintained the petition of right with costs, it being provided in the judgment that the matter of assessing damages was to be determined "by reference" and that in the event of an appeal, such reference was to take place after the appeal.

An appeal from the Exchequer Court judgment lodged by the Crown in the Supreme Court of Canada was heard in May 1970. However, judgment was reserved and is to be delivered at a later date. No reference to this contingent liability is included in the listing of contingent liabilities of Canada appearing on page 7.96 of Volume I of the Public Accounts.

Crown Corporations

235. A Crown corporation, as defined by section 76(1)(c) of the Financial Administration Act, is a corporation that is ultimately accountable, through a Minister, to Parliament for the conduct of its affairs. Departmental corporations are named in Schedule B to the Act and are responsible for administrative, supervisory or regulatory services of a governmental nature. Agency corporations are named in Schedule C and are responsible for the management of trading or service operations on a quasi-commercial basis or for the management of procurement, construction or disposal activities on behalf of the Crown. Proprietary corporations are named in Schedule D and are responsible for the management of lending or financial operations, or for the management of commercial and industrial operations involving the production of or dealing in goods and the supplying of services to the public.

236. The following paragraphs are concerned with agency and proprietary corporations to which sections 77 to 88 of the Act apply and certain other Crown corporations which have not been named in any of the Schedules to the Act.

237. Section 85 of the Act requires each corporation to prepare, in respect of each financial year, a balance sheet, a statement of income and expense and a statement of surplus containing such information as, in the case of a company incorporated under the Canada Corporations Act, *R.S., c.53,* is required to be laid before the company by the directors at an annual meeting.

238. Section 87 of the Act requires the auditor of a Crown corporation to report annually to the appropriate Minister the result of his examination of the accounts and financial statements of the corporation and to state in his report whether in his opinion:

(a) proper books of account have been kept by the corporation;

(b) the financial statements of the corporation

- (i) were prepared on a basis consistent with that of the preceding year and are in agreement with the books of account,
- (ii) in the case of the balance sheet, give a true and fair view of the state of the corporation's affairs as at the end of the financial year, and
- (iii) in the case of the statement of income and expense, give a true and fair view of the income and expense of the corporation for the financial year; and

(c) the transactions of the corporation that have come under his notice have been within the powers of the corporation under this Act and any other Act applicable to the corporation.

In addition, the auditor is required to call attention to any other matter falling within the scope of his examination that in his opinion should be brought to the attention of Parliament.

239. Section 87 of the Act further requires that the annual report of the auditor be included in the annual report of each corporation, and section 85 directs that such annual report be submitted to the appropriate Minister within three months after the termination of each financial year and that it be laid before Parliament by the Minister within fifteen days after he receives it from the corporation or, if Parliament is not in session, within fifteen days after the commencement of the next ensuing session.

The financial statements of the various corporations, together with the related audit reports, are published in Volume III of the Public Accounts.

240. The Auditor General is the auditor of the following Crown corporations whose accounts and financial statements were examined for their financial years terminating during, or coinciding with, the fiscal year ended March 31, 1970:

Corporation	Reporting Minister
Atomic Energy of Canada Limited	Energy, Mines and Resources
Canada Deposit Insurance Corporation	Finance
Canadian Arsenals Limited	Supply and Services
Canadian Broadcasting Corporation	Secretary of State
Canadian Commercial Corporation	Supply and Services
Canadian Corporation for the 1967 World Exhibition	Industry, Trade and Commerce
Canadian Dairy Commission	Agriculture
Canadian Film Development Corporation	Secretary of State
Canadian Livestock Feed Board	Agriculture
Canadian National (West Indies) Steamships, Limited	Transport
Canadian Overseas Telecommunication Corporation	Communications
Canadian Patents and Development Limited	Chairman of the Committee of the Privy Council on Scientific and Industrial Research
The Company of Young Canadians	Secretary of State
Crown Assets Disposal Corporation	Supply and Services
Defence Construction (1951) Limited	National Defence
Eldorado Aviation Limited	Energy, Mines and Resources
Eldorado Nuclear Limited	Energy, Mines and Resources
Export Development Corporation	Industry, Trade and Commerce
Farm Credit Corporation	Agriculture
The National Battlefields Commission	Indian Affairs and Northern Development
National Capital Commission	Hon. Robert Knight Andras
National Harbours Board	Transport
Northern Canada Power Commission	Indian Affairs and Northern Development
Northern Transportation Company Limited and subsidiary company	Transport
Polymer Corporation Limited and subsidiary companies	Supply and Services
Royal Canadian Mint	Supply and Services
The St. Lawrence Seaway Authority	Transport
The Seaway International Bridge Corporation, Ltd.	Transport

241. The Canadian Saltfish Corporation was established by the Saltfish Act, *1969-70, c.32,* which was assented to on March 25, 1970. The Auditor General was appointed auditor of the Corporation by the Governor in Council on October 27, 1970. The Corporation had no financial transactions prior to March 31, 1970.

242. The Freshwater Fish Marketing Corporation was established by the Freshwater Fish Marketing Act, *1968-69, c.21,* which was assented to on February 27, 1969. The Auditor General was appointed auditor of the Corporation by the Governor in Council on August 13, 1969. Pursuant to section 79 of the Financial Administration Act, the Governor in Council directed that the Corporation's financial year be from May 1 to April 30 so the first year of operations continued beyond March 31, 1970.

243. The Centennial Commission ceased to exist on April 1, 1968 and the Secretary of State was authorized to close out the affairs of the Commission. Financial statements covering the transactions of the Secretary of State concerning the affairs of the Commission for the year ended March 31, 1970 have been reported on and are referred to in paragraph 258 of this Report.

244. Since the Auditor General has not been appointed the auditor or the joint auditor of the following Crown corporations and public instrumentalities, their accounts were not examined by him during the year:

Corporation or Instrumentality	Reporting Minister
Air Canada	Transport
Bank of Canada	Finance
Canadian National Railways	Transport
The Canadian National Railways Securities Trust	Transport
The Canadian Wheat Board	Hon. Otto E. Lang
Cape Breton Development Corporation	Regional Economic Expansion
Central Mortgage and Housing Corporation	Hon. Robert Knight Andras
Industrial Development Bank	Finance

245. The paragraphs that follow deal with the various corporations audited by the Auditor General. In each case an introductory comment describes briefly the origin of the corporation and the nature of its activity followed by comments regarding the Crown's equity in the corporation, a summary of the operations for the year in comparison with the preceding year, and any other matter which might be of interest to the House of Commons.

246. *Atomic Energy of Canada Limited.* This Company was incorporated in 1952 under the Canada Corporations Act, *R.S., c.53,* pursuant to authority contained in the Atomic Energy Control Act, *R.S., c.11,* to carry out research and development in nuclear power technology and allied fields and to promote uses of atomic energy.

The head office is in Ottawa. The Commercial Products Division of the Company has offices and a manufacturing plant at South March, Ont., and a laboratory in Ottawa.

Nuclear generating stations are located at Rolphton, Ont., and Douglas Point, Ont., and are under construction on cost-sharing bases at Gentilly, Que., and Pickering, Ont. Nuclear reactors and research and development laboratories are maintained at Chalk River, Ont., and at the Whiteshell establishment in Manitoba. The Bruce heavy water plant and an auxiliary steam supply plant are under construction at Douglas Point, Ont. Shopping centres, housing, staff hotels, and hospitals at Deep River, Ont., and Pinawa, Man., were constructed for the employees of the Chalk River and Whiteshell establishments. A Power Projects group, located at Sheridan Park, Ont., and Peterborough, Ont., is responsible for the engineering, development, construction and management of nuclear power generating projects. Radioisotopes produced in the Company's reactors, and equipment designed and built by the Company to use these radioisotopes, are marketed throughout the world. Under specific parliamentary authority, the transmission line in connection with the Nelson River hydro-electric power project is being erected in accordance with an agreement between Canada and the Province of Manitoba.

The Crown's equity in the Company at March 31, 1970, and at March 31, 1969, comprised:

	March 31	
	1970	1969
Loans and accumulated interest for—		
Nelson River transmission line	$ 93,304,000	$ 32,030,000
Douglas Point nuclear power station	77,596,000	77,596,000
Pickering nuclear power station	64,676,000	39,264,000
Gentilly nuclear power station	63,549,000	39,106,000
Bruce heavy water plant	25,850,000	—
Housing projects and commercial buildings	18,026,000	18,092,000
Heavy water inventory	10,000,000	—
	353,001,000	*206,088,000*
Capital stock	15,000,000	15,000,000
Retained earnings	2,519,000	2,597,000
	$ 370,520,000	$ 223,685,000

Not recorded as equity of the Crown is the cost of the Company's research facilities, $226,183,000, which has been charged to parliamentary appropriations and to retained earnings.

The Nelson River transmission line which will extend from Kettle Rapids to Winnipeg, a distance of 576 miles, is under construction at a cost estimated at $194 million and is scheduled for completion in 1974. The Company will retain ownership of the line and will lease it to Manitoba Hydro at rates sufficient to retire the loans from Canada with interest over a period of fifty years.

When the Douglas Point nuclear power station has proved itself to be a safe and dependable source of power, it will be sold to the Hydro-Electric Power Commission of Ontario at a price calculated to make the estimated future cost of energy produced equal to that from a fossil-fired conventional thermal generating station. As well as serving as a prototype for the larger stations, this station provides a training base for the operating staffs of future stations. Since start-up in 1967-68, commissioning costs and operating losses, which include no provision for depreciation, have been incurred as follows:

1967–68	$ 2,032,000
1968–69	2,426,000
1969–70	3,648,000

Whether the sale price will be sufficient to permit the Company to repay the loans remains to be determined.

Similarly, when the Gentilly nuclear power station has proved itself to be a safe and dependable source of power, it will be sold to Quebec Hydro-Electric Power Commission under an agreement similar to that relating to the Douglas Point nuclear power station. The station has not yet started up on an operational basis. Whether the sale price will be sufficient to permit the Company to repay the loans remains to be determined.

The Company's portion of the cost of the Pickering nuclear power station is expected to be recovered from the Hydro-Electric Power Commission of Ontario but this is dependent on the success achieved in the operation of the station.

The loans from Canada with respect to the Bruce heavy water plant are to be retired from revenue obtained from the sale of heavy water.

The loans from Canada with respect to housing projects and commercial buildings are being repaid in accordance with established schedules.

A comparative summary of income and expense for the past two years follows:

	Year ended March 31	
	1970	1969
Research program—		
Operating expense	$ 78,492,000	$ 73,738,000
Gross income from engineering services, housing accommodation, hospitals, sales of steam, etc.	17,196,000	14,819,000
Excess of expense over income, provided for by parliamentary appropriation	$ 61,296,000	$ 58,919,000
Capital expenditure provided for by:		
Parliamentary appropriation	$ 7,704,000	$ 9,681,000
Retained earnings	1,023,000	1,029,000
	$ 8,727,000	$ 10,710,000

	Year ended March 31	
	1970	1969
Commercial operations—		
Income	$ 11,244,000	$ 10,337,000
Expense:		
Cost of sales	6,362,000	5,295,000
Research and development, selling and administration	4,846,000	4,935,000
	11,208,000	10,230,000
Excess of income over expense	$ 36,000	$ 107,000

The increase of $4,754,000 in research program operating expense was due mainly to an increase in salaries, wages and employee benefits of $3,368,000 in accordance with labour agreements negotiated during the year, and an increase in Douglas Point net operating costs of $1,221,000 due mainly to the absence of revenue for a three-month period while the station was closed down for turbine inspection and overhaul.

The increase of $2,377,000 in gross income from engineering services, housing accommodation, hospitals, sales of steam, etc., is due largely to increased sales of engineering services by the Power Projects group.

247. *Canada Deposit Insurance Corporation.* This Corporation was established by the Canada Deposit Insurance Corporation Act, *1966-67, c.70,* to provide deposit insurance for the benefit of persons having deposits with federally incorporated institutions and those provincially incorporated institutions with which the Corporation enters into contracts, and to accumulate, manage and invest a Deposit Insurance Fund and any other funds accumulated as a result of its operations. The head office of the Corporation is in Ottawa.

The Corporation is administered by a Board of Directors consisting of the Chairman, appointed by the Governor in Council, and the incumbents of the offices of the Governor of the Bank of Canada, the Deputy Minister of Finance, the Superintendent of Insurance and the Inspector General of Banks. There were 73 member institutions whose customers' Canadian currency deposits, to a maximum of $20,000, were insured by the Corporation. These member institutions comprised 11 banks, 20 federally and 7 provincially incorporated trust and loan companies supervised by the federal Superintendent of Insurance, and 35 other provincially incorporated trust and loan companies.

Sections 21 and 22 of the Act require that the affairs of member institutions be examined at least once in each year. The banks were examined and reported on by the Inspector General of Banks and the federally incorporated trust and loan companies by the Superintendent of Insurance. The Superintendent of Insurance also reported on the examinations of each of the provincially incorporated companies.

Deposits insured by the Corporation, based on returns made by member institutions during 1969, totalled $22.5 billion comprising $20.4 billion of deposits in federal institutions and $2.1 billion in provincial institutions.

The Crown's equity in the Corporation at December 31, 1969 was $23,500,000 comprising capital stock, $10,000,000 and loans, $13,500,000.

The balance of the Deposit Insurance Fund at December 31, 1969 was $19,766,000 including $7,508,000 of premiums assessed members in respect of the premium year ending April 30, 1970.

A comparative summary of income and expense for the past two years follows:

	Year ended December 31	
	1969	1968
Income—		
Interest on investments	$ 1,370,000	$ 796,000
Interest on loans to member institutions	1,111,000	1,126,000
	2,481,000	1,922,000
Expense—		
Interest on advances from Canada	804,000	927,000
Inspection fees and expenses	90,000	108,000
Salaries and employee benefits	67,000	46,000
Other	70,000	26,000
	1,031,000	1,107,000
Excess of income over expense	$ 1,450,000	$ 815,000

Although the accumulated net earnings of $2,636,000 at December 31, 1969 were sufficient to meet the amount of a dividend, which the Corporation may declare under section 33 of the Act, no dividend was declared.

The Corporation has been designated a proprietary corporation and as such is subject to income tax. However, Order in Council P.C. 1968-10/585 of March 28, 1968 remitted, under section 22 of the Financial Administration Act, any income tax payable by the Corporation.

248. *Canadian Arsenals Limited.* This Company, with its head office in Ottawa, was incorporated under the Canada Corporations Act, *R.S., c.53,* pursuant to authority contained in the Department of Reconstruction Act, 1944, *1944-45, c.18.* The main objects of the Company are the operation, maintenance and supervision of arsenals and other plants for the production of military stores and equipment.

At March 31, 1970 the Crown's equity in the Company consisted of a working capital advance of $4,500,000.

During the year the Company was the custodian of and operated two Crown-owned plants which cost $34 million. The operating results for the past two years are shown in the following summary:

	Year ended March 31 1970	1969
Income—		
Sales	$ 7,655,000	$ 8,616,000
Miscellaneous	377,000	339,000
	8,032,000	8,955,000
Expense—		
Cost of sales	7,922,000	8,456,000
Administration	343,000	348,000
	8,265,000	8,804,000
Excess of expense over income	$ 233,000	$ (151,000)

The decrease in sales and cost of sales was due substantially to a lower volume of business with government departments.

Unfilled sales orders at March 31, 1970 amounted to approximately $6.7 million as compared to $8.9 million at the end of the previous year.

The loss of $233,000 for the year ended March 31, 1970 was recouped from Supply and Services Vote 30b.

249. *Canadian Broadcasting Corporation.* This Corporation was established in 1936 and, under the Broadcasting Act, *1967-68, c.25,* operates national television and radio broadcasting services and an international shortwave service. The head office is in Ottawa and regional offices are located in St. John's, Halifax, Quebec, Montreal, Ottawa, Toronto, Windsor, Winnipeg, Edmonton and Vancouver.

Prior to 1964-65 the Corporation derived funds, for both its capital and operating requirements in excess of advertising revenue, from grants provided by parliamentary appropriations. Subsequently, however, funds for capital requirements have been provided by means of loans from Canada (see paragraph 54 of this Report). Additional loans of $24,700,000 in 1969-70 less repayments of $5,065,000 increased the amount outstanding at March 31, 1970 to $112,005,000. The loans bear interest varying from $5\frac{1}{4}\%$ to $8\frac{1}{2}\%$ and are each repayable in 20 equal annual instalments.

Funds available to finance the acquisition of capital assets comprised the additional loans of $24,700,000, an unexpended balance of $697,000 remaining from loans obtained in the previous year and $63,000 realized on sale of assets. The sum of $25,543,000 was expended, resulting in an amount of $83,000 remaining at March 31, 1970 to be recouped from future capital loans. Capital expenditure during the year is classified as consolidation of facilities, $13,616,000, improvements to coverage, $5,721,000 and additions and replacements, $6,206,000. The accumulated cost of capital assets, $189,398,000, included

$34,181,000 expended during the past eleven years in connection with the planned consolidation of facilities in Montreal, Ottawa, Toronto, Winnipeg and Vancouver. The Corporation's estimate at March 31, 1970 of the future cost of consolidation of facilities was $120,000,000 of which, subject to the provision of funds by Parliament for the purpose, approximately $20,000,000 will be expended during the year ending March 31, 1971 and $100,000,000 in subsequent years.

At March 31, 1970 the Crown's equity in the Corporation was $142,735,000 represented by working capital, $26,910,000 and net book value of capital assets amounting to $115,825,000.

A summary of the source and application of the Corporation's funds in 1969-70 follows:

Source—	
Parliamentary appropriations:	
Operating grant	$ 166,000,000
Loans for capital expenditure	24,700,000
	190,700,000
Advertising revenue	47,033,000
Depreciation and amortization	10,182,000
Miscellaneous—including proceeds from sale of assets	1,939,000
	$ 249,854,000
Application—	
Total operating expense	$ 208,033,000
Additions to capital assets	25,543,000
Repayment of capital loans	5,065,000
	238,641,000
Increase in working capital	11,213,000
	$ 249,854,000

The following is a summary of the net cost of operations for the past two years:

	Year ended March 31	
	1970	1969
Expense—		
Cost of production and distribution:		
Programs	$ 128,012,000	$ 124,066,000
Network distribution	16,695,000	15,086,000
Station transmission	9,886,000	8,924,000
Payments to private stations	5,725,000	5,332,000
Commissions to agencies and networks	5,383,000	4,788,000
	165,701,000	*158,196,000*
Operational supervision and services	17,865,000	16,562,000
External services	4,326,000	3,952,000
Emergency broadcasting	418,000	506,000
	188,310,000	179,216,000
Selling and general administration	13,655,000	12,509,000
Interest on loans to finance the acquisition of capital assets	6,068,000	4,762,000
	208,033,000	196,487,000
Income—		
Advertising revenue, etc.	48,909,000	41,536,000
Net cost of operations	$ 159,124,000	$ 154,951,000

Secretary of State Vote 30 provided for the payment to the Corporation of $166,-000,000 for operating expenditures in providing a broadcasting service. The entire amount was retained by the Corporation and applied as follows:

Net cost of operations	$ 159,124,000	
Less: Depreciation and amortization not requiring a cash outlay	10,182,000	
		$ 148,942,000
Repayment of loans		5,065,000
Expenditures on capital assets in excess of loan funds received in year		780,000
Increase in working capital		11,213,000
		$ 166,000,000

The major items contributing to the increase in expense were salaries and wages, $8,079,000, other employment expenses, $527,000, and performers' fees, authors', composers' and other rights, $1,506,000. The increase in salaries and wages was due to merit increases and economic adjustment for management and union salaries, increase in salesmen's commissions and increased expenditures for casual wages, vacation relief, and retiring allowances brought about through staff reductions. Personnel on strength at March 31, 1970 was 9,098 compared with 9,375 at the previous year-end. Performers' fees, authors', composers' and other rights increased due to amended rates under revised union agreements.

The increase in advertising revenue reflects changes in sales policy which increased advertising availabilities and altered the rate structure and the discount terms, all of which encouraged higher volume sales.

The cost of programs available for advertising and advertising revenue earned thereon were shown in a note to the financial statements as follows:

	1969–70	1968–69
Programs which carried advertising	$ 54,213,000	$ 46,939,000
Programs available but which did not carry advertising	24,406,000	31,177,000
Program and related costs (exclusive of operational supervision, selling and general administration)	$ 78,619,000	$ 78,116,000
Advertising revenue—gross	$ 47,033,000	$ 39,566,000

The net cost of programs with advertising potential in 1969-70 not recovered from sponsors or through revenue from spot announcements was therefore $31,586,000, compared with $38,550,000 in 1968-69. This amount had to be financed from the parliamentary appropriation.

Expenditures incurred in connection with future programs are recorded as current assets of the Corporation until such time as the programs are broadcast. These assets were as follows:

	March 31	
	1970	1969
Programs completed and in process of production	$ 6,904,000	$ 7,051,000
Film and script rights	3,371,000	2,993,000
	$ 10,275,000	$ 10,044,000

These amounts are after giving effect to the following write-offs:

	1969–70	1968–69
Programs completed and in process of production—cost of programs which were unsuitable because of technical difficulties, scheduling changes, pre-emptions, inferior quality, etc.	$ 291,000	$ 548,000
Film rights—unsuitable, inferior quality, expiry of right	115,000	247,000
Script rights—unsuitable, inferior quality, expiry of right	76,000	137,000
	$ 482,000	$ 932,000

During the year the Corporation acquired the assets of the Regina-Moose Jaw television station CHAB, paying $788,000 more than the appraised value which is to be amortized over a five-year period.

In last year's Report (paragraph 55) we noted that the Corporation had failed to deduct and remit employees' taxes and to pay other contributions to the United States Government. During the year the Corporation received an additional assessment of $18,000 bringing the total liability to $147,000 which was discharged in 1969.

250. *Canadian Commercial Corporation.* This Corporation was established in 1946 by the Canadian Commercial Corporation Act, *R.S., c.35,* to provide procurement services in Canada for the governments of other countries and for international organizations. During the year the Corporation's purchases on behalf of its customers totalled $266 million compared with $325 million in the preceding year.

The Crown's equity in the Corporation at March 31, 1970 was $15,716,000, consisting of a $10,000,000 working capital advance, $5,500,000 in interest-bearing loans, a $52,000 reserve for United States exchange, and a $164,000 reserve for contingencies. The reserve for contingencies was charged during the year with a loss of $59,000 incurred when the Corporation's holdings of Government of Canada bonds were sold.

A comparative summary of the Corporation's operations for the past two years follows:

	Year ended March 31	
	1970	1969
Expense—		
Estimated cost of administrative services	$ 4,911,000	$ 3,080,000
Income—		
Interest earned on:		
Investments	459,000	330,000
Special progress payments to suppliers	157,000	198,000
	616,000	528,000
Less: Interest on loans from Canada	327,000	352,000
	289,000	176,000
Net cost of operations	$ 4,622,000	$ 2,904,000
Net cost of operations provided for by—		
Supply and Services Vote 40	$ 3,422,000	$ 2,124,000
Government departments which provided major services without charge	1,200,000	780,000
	$ 4,622,000	$ 2,904,000

In 1969-70 the supply program of the Department of Supply and Services was classified by activities, one of which was foreign government marketing. After adjusting the costs allocated to this activity by an amount applicable to another department, the remainder reflected all costs applicable to the Corporation. In prior years the cost of administrative services was allocated on the basis of the estimated percentage of business that was transacted by various branches of the Department on behalf of the Corporation. This change in the basis of allocating administrative expense to the Corporation largely explains the increase in the estimated cost of these services over that allocated in the previous year.

In 1967 the Corporation entered into an agreement with the Netherlands to supply 105 aircraft at a ceiling price notwithstanding the fact that the aircraft manufacturer was not committed to a firm or ceiling delivery price. Based on experience with similar aircraft being produced for the Department of National Defence by the same manufacturer, it now appears that costs could exceed the ceiling price (see paragraph 106 of this Report). A footnote to the Balance Sheet as at March 31, 1970 draws attention to the contract with the Netherlands that carries with it certain risks which will likely result in a loss to the Corporation.

251. *Canadian Corporation for the 1967 World Exhibition.* This Corporation was established by the Canadian Corporation for the 1967 World Exhibition Act, *1962-63, c.12,* for the purposes of planning, organizing, holding and administering the Canadian Universal and International Exhibition, Montreal, 1967. An Act respecting the Canadian World Exhibition, passed by the Quebec Legislature in 1963, provided authority for the Province of Quebec and the City of Montreal to share with the Government of Canada in the financing of the Corporation. The Exhibition closed on October 29, 1967 and the Corporation was wound up on November 27, 1969 pursuant to the provisions of the Expo Winding-up Act, *1969-70, c.1.*

Section 17 of the incorporating Act required the accounts and financial transactions of the Corporation to be audited by the Auditor General of Canada and the Quebec Provincial Auditor and reported upon annually in a manner similar to that required by the Financial Administration Act in respect of Crown corporations.

A summary of the Corporation's operating results for the period from January 1, 1969 to the date of winding-up on November 27, 1969, together with cumulative totals from date of inception on December 20, 1962 to November 27, 1969, follows:

	1969	Cumulative to November 27, 1969
Expenditure—		
Operating costs—site services	$ (51,000)	$ 111,410,000
Administration	221,000	43,687,000
Interest on loans	755,000	22,305,000
Advertising and publicity	(35,000)	20,983,000
Commission on sale of admission passports and bonus-books	—	12,824,000
Depreciation and amortization	—	2,569,000
Demolition	—	496,000
	890,000	214,274,000
Income—		
Operations	70,000	129,081,000
Sponsorship	—	11,974,000
	70,000	141,055,000
Net operating loss	$ 820,000	$ 73,219,000

As was pointed out in previous Reports (paragraph 266 in 1969) the joint auditors were unable to express an opinion as to the correctness of revenue aggregating $101,-438,000 of the total revenue of $141,055,000.

Following the close of the Exhibition certain capital assets were transferred to Canada, the Province of Quebec and the City of Montreal, mainly on the basis of whichever owned the land on which the assets were situated, and the remainder were sold or demolished. The cost of the assets transferred together with the loss on disposal of the

remaining assets was written off in determining the net cost of the Exhibition, which amounted to $285,712,000 at November 27, 1969, as follows:

Net operating loss		$ 73,219,000
Amounts written off on transfer of capital assets to participating governments—		
Canada	$ 59,876,000	
Province of Quebec	4,754,000	
City of Montreal	135,095,000	
		199,725,000
Loss on disposal of capital assets		12,266,000
Additional claims paid subsequent to close of Exhibition		502,000
Deficit (Net cost of Exhibition)		$ 285,712,000

This deficit has been allocated in accordance with the agreement of January 18, 1963, to Canada 50%, the Province of Quebec $37\frac{1}{2}$% and the City of Montreal $12\frac{1}{2}$%. After deducting their respective grants, totalling $40,000,000, and amounts paid in settlement of the deficit, the amounts due to and from each government are as follows:

	Total	Canada	Province of Quebec	City of Montreal
Recorded deficit	$ 285,712,000	$ 142,856,000	$ 107,142,000	$ 35,714,000
Less:				
Grants	40,000,000	20,000,000	15,000,000	5,000,000
Inter-governmental settlements	240,000,000	122,900,000	91,950,000	25,150,000
Services rendered by the City of Montreal	5,550,000			5,550,000
	285,550,000	142,900,000	106,950,000	35,700,000
Net amount due to (by) the Corporation	$ 162,000	$ (44,000)	$ 192,000	$ 14,000

These amounts together with other recorded assets and liabilities of the Corporation have been transferred to the Minister of Industry, Trade and Commerce for collection and settlement in accordance with the Expo Winding-up Act. In addition, certain claims by contractors totalling $295,000 that are in dispute and which, in the opinion of legal counsel cannot be sustained, have been transferred to the Minister for settlement. Until these claims are settled it is not possible to determine the final deficit of the Corporation and, therefore, the final amount to be borne by each government. (See paragraph 63 of this Report.)

252. *Canadian Dairy Commission.* This Commission, established by the Canadian Dairy Commission Act, *1966-67, c.34,* consists of a chairman and two members appointed by the Governor in Council. The objects of the Commission are to provide efficient producers of milk and cream with the opportunity of obtaining a fair return for their labour and investment and to provide consumers of dairy products with a continuous and adequate supply of dairy products of high quality.

In carrying out its functions the Commission pays subsidies, under a quota system, directly to producers of manufacturing milk and cream on their deliveries to processing plants, and supports the domestic prices of butter, skim milk powder and cheese, by offering to purchase any surpluses at prescribed prices. Holdbacks from subsidy payments are applied against losses on export sales at world market prices.

The financial transactions of the Commission, other than those relating to administrative expense, are recorded in the Canadian Dairy Commission Account established in the Consolidated Revenue Fund pursuant to section 15 of the Act. The purchase of dairy products to support market prices was financed by means of loans from the Minister of Finance. Subsidies to dairy producers, subsidies on disposal of surplus products and the net cost of marketing operations including interest on loans, were financed from funds transferred to the Commission by the Agricultural Stabilization Board from Agriculture Vote 17. The administrative expense of the Commission was provided for by Agriculture Vote 55.

Loans to the Commission including accrued interest amounted to $47,368,000 at March 31, 1970. The Crown's equity was $21,982,000 represented by cash on deposit with the Receiver General, $7,534,000, accounts receivable, $27,000, inventories of butter, skim milk powder and cheese, at market value, $27,878,000, less subsidies and other accounts payable, $13,457,000. The deficit of $25,386,000 at March 31, 1970 includes $19,443,000 which resulted from the provision for subsidies applicable to surplus inventories of butter and skim milk powder.

The following is a summary of the operations of the Commission for the past two years:

	Year ended March 31	
	1970	1969
Dairy prices support program		
Subsidies to producers of manufacturing milk and cream (excluding holdbacks from producer subsidies)	$ 82,626,000	$ 100,871,000
Subsidies on disposal of surplus dairy products including holdbacks from producer subsidies of $24,824,000 ($15,714,000 in 1968-69)	50,679,000	54,995,000
Phasing-out payments to low-volume producers whose subsidy quotas were withdrawn in 1968–69	—	4,446,000
Net cost of marketing operations	8,968,000	4,941,000
Information	5,000	142,000
Cost of program	142,278,000	165,395,000
Administrative expense	847,000	741,000
Expenditure applicable to 1967–68 operations (net)	—	6,259,000
Total expenditure	$ 143,125,000	$ 172,395,000

	Year ended March 31	
	1970	1969
Expenditure provided for by—		
Agricultural Stabilization Board payment for the purpose of stabilizing the price of dairy products—Agriculture Vote 17	$ 131,857,000	$ 156,063,000
Gross profit on sales of domestic and imported products to March 31, 1968	—	626,000
Agriculture Vote 55 (Administrative expense)	397,000	303,000
Government departments which provided certain major services without charge	450,000	438,000
	132,704,000	157,430,000
Portion of expenditure not provided for	10,421,000	14,965,000
	$ 143,125,000	$ 172,395,000

The following is a summary by commodities of the net cost of marketing operations to stabilize domestic prices, together with totals for the preceding year:

				Year ended March 31	
	Skim milk powder	Butter	Cheese	1970	1969
Sales	$ 16,671,000	$ 37,413,000	$ 3,436,000	$ 57,520,000	$ 57,597,000
Subsidies applicable to surplus products sold	37,594,000	—	—	37,594,000	13,236,000
	54,265,000	37,413,000	3,436,000	95,114,000	70,833,000
Cost of products sold	54,265,000	37,056,000	3,371,000	94,692,000	69,422,000
Gross profit	—	357,000	65,000	422,000	1,411,000
Expense—					
Storage	1,428,000	1,697,000	42,000	3,167,000	2,690,000
Freight and handling	671,000	871,000	3,000	1,545,000	1,284,000
	2,099,000	*2,568,000*	*45,000*	*4,712,000*	*3,974,000*
Loss (profit)	$ 2,099,000	$ 2,211,000	$ (20,000)	4,290,000	2,563,000
Interest on loans				4,765,000	3,179,000
Loss on sales of domestic products				9,055,000	5,742,000
Deduct: Profit on sales of imported butter				87,000	801,000
Net cost of marketing operations				$ 8,968,000	$ 4,941,000

Subsidies applicable to surplus products sold represent the difference between the Canadian support price and the world market price realized on sale of the products abroad.

In addition to the subsidies of $37,594,000 applicable to the disposal of surplus skim milk powder by the Commission, subsidies were paid to dairy manufacturers to assist in disposing of surplus production of skim milk powder, $11,027,000; cheese, $3,245,000; and evaporated milk and dry whole milk, $198,000. Also, assistance totalling $3,265,000 was given to manufacturers with respect to skim milk diverted to the production of casein rather than milk powder.

A summary of the administrative expense for the past two years follows:

	Year ended March 31	
	1970	1969
Remuneration of Members of the Commission	$ 73,000	$ 75,000
Data processing service	383,000	357,000
Employee salaries and benefits	216,000	170,000
Cheque issue services	67,000	81,000
Miscellaneous	108,000	58,000
	$ 847,000	$ 741,000

The administrative expense of $847,000 includes $450,000 for the estimated value of services provided without charge by the Department of Agriculture and the Department of Supply and Services. We reiterate the recommendation made in previous Reports (paragraph 267 in 1969) that provision for the cost of these services be made in the Canadian Dairy Commission vote for Administration, Operation and Maintenance so that the total cost of administering the dairy price support program will be assembled in one vote.

253. *Canadian Film Development Corporation.* This Corporation, established by the Canadian Film Development Corporation Act, *1966-67, c.78,* consists of six members appointed by the Governor in Council, and the person holding the office of Government Film Commissioner. Its objects are to foster and promote the development of a feature film industry in Canada, for which purposes the Act appropriated $10 million to be paid out of the Consolidated Revenue Fund from time to time as required. The head office of the Corporation is in Montreal.

Payments from the appropriation to March 31, 1970 totalled $2,401,000 of which $1,828,000 was paid in 1969-70 comprising $1,399,000 for investment in Canadian feature film productions, $414,000 for operating purposes, and $15,000 for furniture and fixtures. The balance available in the appropriation at March 31, 1970 was therefore $7,599,000. At that date the Corporation was committed to invest a further $339,000 in future Canadian feature film productions.

Amounts paid out as investments in, or loans to producers of, Canadian feature film productions are charged to the Canadian Film Development Advance Account to which all receipts from such loans and investments are credited. These receipts, which during the year amounted to $47,000 comprising principal repayments of $25,000 and interest earnings of $22,000, are available for reinvestment.

The Crown's equity in the Corporation at March 31, 1970 was $1,792,000 comprising amounts invested in Canadian feature film productions, $1,743,000, working capital, $28,000 and furniture and fixtures, $21,000.

The following is a summary of the expense of the Corporation for the past two years:

	Year ended March 31	
	1970	1969
Administration—		
Salaries of Members and executive officers	$ 40,000	$ 34,000
Other salaries and employee benefits	49,000	19,000
Rent, leasehold improvements and taxes	23,000	13,000
Advisory fees, including expenses	21,000	11,000
Printing, postage and general office	13,000	4,000
Staff and Members travel	12,000	12,000
Accounting and legal fees, including expenses	11,000	4,000
Other	7,000	4,000
	176,000	101,000
Investments and loans written off	124,000	—
Grants to film-makers and film technicians resident in Canada	115,000	—
Depreciation	5,000	2,000
Awards for outstanding accomplishments in the production of Canadian feature films	—	100,000
Total expense	$ 420,000	$ 203,000
Total expense provided for by—		
Statutory appropriation	$ 429,000	$ 205,000
Less: Expenditure on furniture and fixtures	15,000	13,000
	414,000	192,000
Depreciation	5,000	2,000
Increase in accounts payable	1,000	9,000
	$ 420,000	$ 203,000

The investments and loans written off comprised $79,000 to reduce to the nominal value of $1 each amounts invested in preproduction costs of eight films unlikely to go into production because distribution agreements could not be arranged by the producers, and $45,000 to reduce by 50% the amount invested in six films where there appeared to be some doubt that a distribution agreement could be arranged. The copyrights in these scenarios are vested in the Corporation.

The expansion of the Corporation's activities in its second year of operation has resulted in the general increase in administrative expense. The increase of $30,000 in other salaries and employee benefits was due to an increase of three employees, $21,000, and general salary increases. The increase of $10,000 in accommodation costs was due mainly to the opening of an office in Toronto.

254. *Canadian Livestock Feed Board.* This Board, established by the Livestock Feed Assistance Act, *1966-67, c.52,* consists of four members appointed by the Governor in Council. The objects of the Board are to ensure the availability of feed grain to meet the need of livestock feeders, the availability of adequate storage space in Eastern Can-

ada for feed grain, and the maintenance of reasonable stability in, and fair equalization of, feed grain prices in Eastern Canada and British Columbia.

The following is a summary of the expenditure of the Board for the past two years:

	Year ended March 31	
	1970	1969
Freight assistance on feed grains	$ 21,860,000	$ 17,997,000
Administration—		
Salaries and employee benefits	217,000	158,000
Accounting and cheque issue services	64,000	50,000
Travel and removal	30,000	19,000
Accommodation	23,000	20,000
Professional and special services	23,000	19,000
Stationery and office supplies	23,000	13,000
Other	23,000	19,000
	403,000	298,000
Total expenditure	$ 22,263,000	$ 18,295,000
Total expenditure provided for by—		
Agriculture Vote 65	$ 21,860,000	$ 17,997,000
Agriculture Vote 60	302,000	224,000
Treasury Board—Reserve for salary revisions	10,000	—
Government departments which provided certain major services without charge	91,000	74,000
	$ 22,263,000	$ 18,295,000

The major services provided without charge were employee benefits by the Treasury Board, accounting and cheque issue services by the Department of Supply and Services, and accommodation by the Department of Public Works. It is the general policy that Crown corporations pay for these services and provision should be made for these costs in the appropriation for the administration and operation expense of the Board.

The increase of $59,000 in salaries and employee benefits includes $6,000 for salaries and fees paid to Board members, $25,000 for staff salary increases including retroactive payments, and $19,000 for salaries of new employees taken on strength during the previous year. Travel and removal expense increased by $11,000 largely as a result of increased travel costs for Board members and staff following the opening of an office in Ottawa. The printing of new claim forms was primarily responsible for the increased cost of stationery and office supplies.

255. *Canadian National (West Indies) Steamships, Limited.* The operations of this Company ceased in 1958 on the sale of its fleet of eight vessels to Cuban interests.

The Crown's equity in the Company at December 31, 1969 was $556,000 represented by cash, $5,000, a deposit with the Receiver General, $95,000, and a final instalment of $470,000 receivable under an agreement of sale, less a liability of $14,000 in respect of unclaimed matured bonds.

The balance receivable under the agreement of sale represents the final instalment due August 19, 1963 under the terms of a letter of credit confirmed by the Bank of America. Payment continues to be prohibited by the Cuban Assets Control Regulations of the United States of America dated July 8, 1963. Efforts of the Department of Finance during the year to obtain a licence from the Secretary of the Treasury of the United States to enable the Bank of America to make payment notwithstanding these Regulations were unsuccessful. However, the Bank of America has agreed to an extension to December 31, 1971 of the limitation period under which legal action may be taken against it.

256. *Canadian Overseas Telecommunication Corporation.* This Corporation was constituted in 1949 by the Canadian Overseas Telecommunication Corporation Act, *R.S., c.42,* to establish, maintain and operate external telecommunication services generally and to co-ordinate Canada's external telecommunication services with those of other nations.

The Crown's equity in the Corporation was $80,890,000 at March 31, 1970 comprising advances of $45,919,000 and a surplus of $34,971,000.

The capital requirements of the Corporation during the year were met from accumulated earnings and $3,424,000 was repaid on advances received in prior years. Additions to capital assets amounted to $4,857,000 and at March 31, 1970 the estimated cost of completing approved capital projects was $29,100,000 of which $15,300,000 relates to the year ending March 31, 1971.

The following is a summary of income and expense of the Corporation for the past two years:

	Year ended March 31	
	1970	1969
Income—		
Telegraph, telephone, telex, circuit rentals, satellite, etc.	$ 33,155,000	$ 30,500,000
Expense—		
Salaries, wages and employee benefits	7,304,000	6,715,000
Depreciation	7,255,000	6,772,000
Rental of circuits, etc.	4,210,000	2,993,000
Maintenance and repairs—plant and equipment	2,495,000	1,954,000
Interest	2,458,000	2,620,000
Other	880,000	863,000
	24,602,000	21,917,000
Less:		
Estimated amount recoverable from Commonwealth Network	3,275,000	3,024,000
Portion of expense capitalized	774,000	381,000
	4,049,000	*3,405,000*
	20,553,000	18,512,000
Profit before income tax	12,602,000	11,988,000
Provision for income tax	6,470,000	6,195,000
Net income	$ 6,132,000	$ 5,793,000

The increase of $2,655,000 in income is largely accounted for by increases of $1,473,000 in telephone revenue and $1,099,000 in telex revenue.

Expense increased by $2,685,000, including $483,000 for depreciation due to increased investment in capital assets, $1,217,000 for the rental of additional circuits and the leasing of additional landline connections between Montreal and Mill Village, N.S., and $541,000 for oceanic cable repairs. These were offset by increases in the estimated portion of expense recoverable from the Commonwealth Network, $251,000, and the portion of expense capitalized, $393,000, resulting in a net increase of $2,041,000 in the expense charged to operations.

257. *Canadian Patents and Development Limited.* Section 17 of the National Research Council Act, *R.S., c.239,* provides for the incorporation of one or more companies by the National Research Council of Canada for the purpose of exercising certain of the powers conferred upon the Council. Under this authority Canadian Patents and Development Limited was incorporated in 1947 under the Canada Corporations Act, *R.S., c.53,* for the purpose of making available to industry, through licensing arrangements, the inventions and new processes developed by the Council. The services of the Company, which is located in Ottawa, are also available to government departments, publicly supported institutions and universities.

At March 31, 1970 the Crown's equity in the Company was $954,000, comprising capital stock of $296,000 and surplus of $658,000.

The following is a summary of the results of the Company's operations for the past two years:

	Year ended March 31	
	1970	1969
Income—		
Royalties, licensing fees, etc.	$ 451,000	$ 378,000
Less: Costs of licensing rights and related technical assistance, etc.	123,000	82,000
	328,000	296,000
Other	106,000	83,000
	434,000	379,000
Expense—		
Salaries	250,000	222,000
Patent attorneys' fees and other patenting costs	102,000	76,000
Development assistance	72,000	171,000
Rent	47,000	24,000
Awards to inventors	21,000	16,000
Promotion	20,000	20,000
Services provided by National Research Council of Canada	16,000	9,000
Other	21,000	28,000
	549,000	566,000
Net loss	$ 115,000	$ 187,000

The increased income from royalties, licensing fees, etc., is largely attributable to increased revenue under five licensing agreements. The $23,000 increase in other income is largely accounted for by a lump-sum payment from a new licensee under an agency agreement.

The increase of $28,000 in salaries is due to increased rates. The $26,000 increase in patent attorneys' fees and other patenting costs resulted from a substantial increase in the number of patents filed, accompanied by increased patent attorney fees and other charges. The decrease of $99,000 in development assistance was mainly due to a contraction of the development program and a reduction in assistance required by one licensee. The rent increase of $23,000 is attributable to a full year's use of office accommodation which prior to October 1968 was provided rent-free by the National Research Council of Canada.

258. *Centennial Commission.* The Centennial Commission was established by the Centennial of Canadian Confederation Act, *1960-61, c.60,* to promote interest in, and to plan and implement programs and projects relating to, the Centennial of Confederation in Canada. The Commission consisted of a commissioner, an associate commissioner and twelve directors, all appointed by the Governor in Council. Pursuant to Secretary of State Vote 1c, Appropriation Act No. 1, 1968, *1967-68, c.34,* the Commission ceased to exist on April 1, 1968; all rights and property, and all obligations and liabilities of the Commission existing before that day were directed to continue as the rights, property, obligations and liabilities of the Crown; and the Secretary of State was authorized to close out the affairs of the Commission.

The Centennial of Confederation Fund, established under section 10 of the Act, had a balance of $2,384,000 at April 1, 1969. During the year $1,536,000 granted to provinces for approved projects was charged to the Fund, leaving a balance of $848,000 at March 31, 1970.

At March 31, 1970 there were outstanding commitments amounting to $348,000 under the Centennial Projects Program in respect of projects of a lasting nature initiated by municipalities or local agencies and approved by provincial authorities. The balance of $848,000 in the Centennial of Confederation Fund was available to the Secretary of State to meet these commitments.

The following is a summary of expenditures for the year ended March 31, 1970 towards closing out the affairs of the Centennial Commission with comparable figures for the year ended March 31, 1969 and cumulative figures from the establishment of the Commission on September 29, 1961:

	Year ended March 31		Cumulative to March 31, 1970
	1970	1969	
Grants to provinces for approved projects of a lasting nature	$ 1,536,000	$ 4,870,000	$ 41,387,000
Programs and projects of national significance	17,000	137,000	37,843,000
Administration expense	—	42,000	12,957,000
Total expenditure	$ 1,553,000	$ 5,049,000	$ 92,187,000

	Year ended March 31 1970	1969	Cumulative to March 31, 1970
Total expenditure provided for by—			
Centennial of Confederation Fund	$ 1,536,000	$ 4,870,000	$ 41,387,000
Secretary of State Vote 1b	17,000	179,000	50,284,000
Government departments which provided accommodation and accounting services without charge	—	—	516,000
	$ 1,553,000	$ 5,049,000	$ 92,187,000

The expenditures on "Programs and projects of national significance" in 1969-70 were in settlement of outstanding accounts in respect of Confederation Train and Caravans, $16,000, and Publications Assistance, $1,000.

259. *The Company of Young Canadians.* The Company was established by the Company of Young Canadians Act, *1966-67, c.36,* to support, encourage and develop programs for social, economic and community development in Canada through voluntary service. The head office is in Ottawa.

The Company is under the stewardship of a Council consisting of not less than seven and not more than nine members appointed by the Governor in Council pursuant to the Act. An amendment to the Act (*1969-70, c. 15*) which was assented to on March 12, 1970, provides that the accounts and financial transactions of the Company shall be audited annually by the Auditor General. In accordance with this requirement we have examined the accounts for the year ended March 31, 1970.

A summary of the Company's income and expense for the past two years follows:

	Year ended March 31 1970	1969
Income—		
Payment received pursuant to Secretary of State Vote 48	$ 1,900,000	$ 1,900,000
Interest and donations	44,000	13,000
	1,944,000	1,913,000
Expense—		
Staff salaries and benefits	458,000	549,000
Volunteers' allowances and benefits	731,000	780,000
Services provided by individuals or firms	119,000	180,000
Transportation and travel	150,000	192,000
Program support—including office expense	119,000	108,000
Communications	55,000	55,000
Meetings, conferences and courses	47,000	42,000
Purchase of motor vehicles, furniture and equipment	26,000	11,000
	1,705,000	1,917,000
Excess of income over expense	$ 239,000	$ (4,000)

Our examination revealed weaknesses in the accounting and financial controls of the Company. A lack of policy for approving payrolls and checking their accuracy resulted in payrolls for some months being neither approved nor checked; others were approved but not checked; and some had been checked but not approved. In ten cases there was no evidence on file that the employee's salary rate had been authorized. In addition, there was no contract of employment in the files of eleven Volunteers and in eleven other cases the files themselves were missing. Thus in 32 instances we were unable to verify the monthly rates of remuneration.

From the date of its establishment to March 31, 1970, the Company has purchased capital assets totalling $156,000 but a capital asset ledger has never been maintained. A physical inventory of furniture and equipment was taken during the year and the residual value estimated but no attempt was made either to establish actual cost or determine the items that should have been on hand by reference to purchases and disposals. There were also discrepancies, which could not be reconciled, between our physical count and that of the Company.

In May 1969, a Volunteer pleaded guilty to obstructing a police officer in the Slave Lake area of Alberta. The conviction was appealed and quashed on technical grounds. In Kingston, Ont., another Volunteer was charged with obstructing a police officer but the charge was dismissed because of an error in the wording. Although the Volunteers were apparently not acting within the scope of their employment at the time of the alleged offences, legal fees of $491 and $250 respectively were paid by the Company.

As a result of public criticism of the Company, on October 24, 1969 the Standing Committee on Broadcasting, Films and Assistance to the Arts was empowered to consider and report to the House of Commons on the legislative framework, organization and operations of the Company. The Committee heard 18 witnesses and submitted its report to the House on December 5, 1969. In the report the Committee expressed concern with existing conditions which it described as follows:

(i) There is a lack of administrative procedures resulting in almost chaotic conditions.

(ii) Financial procedures, to say the least, are questionable and unconventional.

(iii) Evidence has been adduced of an infiltration into the Company, particularly in one region of the country, by individuals who have used the Company as a base for acts of subversion, violence and illegality, which the administrators of the Company were apparently powerless to control. It would also appear that public funds may have been surreptitiously diverted to support these purposes.

(iv) It is apparent that from time to time and from place to place various volunteers, in the course of their duties, participated in overt acts of a partisan political nature, contrary to the objectives and the best interests of the Company.

(v) Your Committee has evidence that the Executive Director of the Company is seriously hampered in the performance of his duties. This situation results from the following factors, among others:

(a) The Company has no policies on the qualifications required of volunteers nor any definition of their exact role and functions;

(b) There is no policy on the recruitment of volunteers;

(c) There are no policies on the training of volunteers;

(d) There are no evaluation procedures with respect to the performance of volunteers and staff;

(e) There is no adequate procedure to deal with the grievances of volunteers or staff;

(f) There are no adequate policies for the suspension and dismissal of staff and the suspension or cancellation of volunteer contracts.

(vi) The Company has no policies for the research, selection, evaluation, modification and/or termination of programs or projects.

Notwithstanding these findings, the Committee expressed the belief that the original concepts and objectives of Parliament in creating the Company can be successfully realized but that this result cannot be achieved without substantial changes in the legislative framework, organization and operations of the Company.

Changes in the legislative framework were included in the amendment to the Act that was assented to on March 12, 1970 but shortcomings in financial controls still exist.

260. *Crown Assets Disposal Corporation.* This Corporation was established in 1944 by the Surplus Crown Assets Act, *R.S., c.260.* With certain specified exceptions, the Corporation is responsible for the disposal of the surplus assets of government departments and most of the Crown corporations and agencies. The Corporation has entered into agreements with Britain and the United States whereby it also disposes of surplus property held by them in Canada. The Corporation has its head office in Ottawa and regional sales offices in a number of cities across Canada.

As has been the case for a number of years, the Corporation was authorized for the 1969-70 year to retain 4% of the net proceeds of sales of lands and buildings, including interest received, and 10% of the net proceeds of all other sales, to meet its administrative and other expenses. A summary of the Corporation's income and expense for the year with comparable figures for the preceding year follows:

	Year ended March 31	
	1970	1969
Income—		
Portion retainable by the Corporation from net sales and other income earned	$ 1,193,000	$ 1,120,000
Expense—		
Salaries	966,000	779,000
Employee benefits	84,000	71,000
Rent	70,000	64,000
Telephone, telegrams and postage	57,000	49,000
Printing, stationery and office supplies	27,000	39,000
Travel	22,000	31,000
Office furniture, equipment, repairs and upkeep	18,000	23,000
Data processing	15,000	14,000
Other	12,000	17,000
	1,271,000	1,087,000
Excess of expense over income	$ 78,000	$ (33,000)

The $73,000 increase in income was mainly due to an increase in lands and buildings sales. The $184,000 increase in expense is attributable to increased salaries resulting from higher salary rates and an increase in staff from 112 to 119.

Pursuant to section 81 of the Financial Administration Act, the Corporation was directed to pay to the Receiver General, as of March 31, 1959 and from time to time thereafter, but at intervals of not longer than six months, all of its surplus in excess of $100,000. On March 24, 1970, in order to permit an increase in the Corporation's working capital, the Governor in Council increased from $100,000 to $300,000 the surplus which may be retained by the Corporation. As the surplus at March 31, 1970 was only $22,000, no amount was required to be remitted to the Receiver General.

The equity of the Crown in the Corporation's Agency Account at March 31, 1970 was $9,180,000, compared with $7,761,000 at the end of the preceding year, largely represented by $8,804,000 receivable under long-term interest-bearing sales agreements.

The transactions in the Agency Account during the year, compared with the preceding year, are summarized as follows:

	Year ended March 31	
	1970	1969
Sales made on behalf of—		
Canada	$ 15,963,000	$ 14,346,000
Others	557,000	492,000
	16,520,000	14,838,000
Less: Payment for interest of third party in property sold	1,617,000	—
Direct costs relating to sales	47,000	110,000
	1,664,000	*110,000*
	14,856,000	14,728,000
Interest	550,000	401,000
	15,406,000	15,129,000
Deduct:		
Portion retainable by the Corporation from net sales and other income earned	1,193,000	1,120,000
Remittances to the Receiver General	12,293,000	13,041,000
Other remittances	536,000	388,000
Adjustment of prior years' sales	—	15,000
	14,022,000	14,564,000
Increase (decrease) in equity—		
Canada	1,419,000	504,000
Others	(35,000)	61,000
	$ 1,384,000	$ 565,000

The $1,617,000 payment to a third party out of a total sale price of the property of $2,505,000, represented the negotiated fair market value attributed to a portion of the land and was made in accordance with a 1942 agreement which conveyed that portion to the Crown.

The increase of $1,682,000 in sales comprises an increase of $1,709,000 in sales of lands and buildings and a decrease of $27,000 in other sales.

261. *Defence Construction (1951) Limited.* This Company was incorporated in 1951 under the Canada Corporations Act, *R.S., c.53,* pursuant to the authority in section 7 of the Defence Production Act, *R.S., c.62.*

The Company is responsible for awarding and supervising contracts for defence construction projects and may assist civilian agencies of the Government. Funds to finance projects are provided by the departments concerned, or by the United States Government for defence projects in Canada undertaken on its behalf.

Expenditures on construction projects approved by the Company for payment by the departments or agencies concerned increased from $25 million in 1968-69 to $26 million in 1969-70. The 1969-70 figure includes $1.7 million for the Canadian International Development Agency for which there was no counterpart in 1968-69.

The following is a summary of expense and income for the past two years:

	Year ended March 31	
	1970	1969
Expense—		
Salaries and living allowances	$ 3,636,000	$ 3,431,000
Employee benefits	257,000	264,000
Travel and removal	209,000	180,000
Other	283,000	280,000
	4,385,000	4,155,000
Income—		
Reimbursement for engineering and administrative services, etc.	2,220,000	1,823,000
Net expense	$ 2,165,000	$ 2,332,000
Net expense provided for by—		
National Defence Vote 55	$ 2,135,000	$ 2,295,000
Government departments which provided major services without charge	30,000	37,000
	$ 2,165,000	$ 2,332,000

The only significant increase in expense relates to higher salary rates which more than offset savings resulting from a staff decrease of 11 employees.

The increase in income from reimbursement for engineering and administrative services is mainly attributable to increased activity in non-defence projects and to the

inclusion in billings to the Canadian International Development Agency of head office salary and overhead costs attributed to Company personnel directly engaged on the Agency's projects.

National Defence Vote 55, which provides operating funds for the Company, requires the Company to obtain Treasury Board approval before procuring the construction of projects other than defence projects for the Department of National Defence. Treasury Board approval was not requested for projects involving expenditure of $266,000 during the year which were financed with non-public funds provided by Service organizations for the construction of messes and recreational facilities such as swimming pools, indoor skating rinks and curling clubs because the Company considers these to be defence projects.

262. *Eldorado Aviation Limited.* This Company was incorporated in 1953 under the Canada Corporations Act, *R.S., c.53,* and is a wholly-owned subsidiary of Eldorado Nuclear Limited. Operating from headquarters in Edmonton, it provides air transportation services mainly for its parent company and Northern Transportation Company Limited, another wholly-owned subsidiary of Eldorado Nuclear Limited. These two companies share the cost of operations of Eldorado Aviation Limited on a "cost per ton-mile" basis.

The equity of Eldorado Nuclear Limited in the Company at December 31, 1969 comprised capital stock of $28,000 and surplus of $254,000.

The following is a summary of the net expense of the Company for the past two years:

	Year ended December 31	
	1969	1968
Salaries, wages and employee benefits	$ 425,000	$ 380,000
Supplies	196,000	188,000
Repairs	138,000	156,000
Hangar expense	48,000	44,000
Insurance	39,000	30,000
Depreciation	32,000	45,000
Other	34,000	31,000
	912,000	874,000
Miscellaneous income	40,000	89,000
Net expense	$ 872,000	$ 785,000

The increase of $45,000 in salaries, wages and employee benefits was due to an increase in the number of employees from 34 to 38, together with an increase in salary rates effective August 1, 1969. A decrease in the time one of the Company's aircraft was leased to private operators was the major reason for the decrease of $49,000 in miscellaneous income and the reduction of $18,000 in repairs expense.

The net expense for the year was recovered by the Company from Eldorado Nuclear Limited and from Northern Transportation Company Limited in the amounts of $737,000 and $135,000.

263. *Eldorado Nuclear Limited.* This Company, formerly known as Eldorado Mining and Refining Limited, was incorporated in 1945 under the Canada Corporations Act, *R.S., c.53,* following expropriation in 1944 of the shares of a privately-owned company. The principal functions of the Company are to produce, refine, procure and sell uranium and allied products and to produce zirconium metal which is used in nuclear power plants. The head office of the Company and the Research and Development Division are in Ottawa, the Beaverlodge mine is near Uranium City, Sask., and the refinery, the zirconium plant and the administrative offices are in Port Hope, Ont.

The equity of the Crown in the Company at December 31, 1969 amounted to $62,226,000 comprising capital stock of $6,586,000, surplus of $44,406,000, and loans of $11,234,000, including accrued interest. The loans were made under the authority of Vote L3b, Appropriation Act No. 1, 1969, *1968-69, c.23,* for the purpose of meeting capital and operating expense and bear interest varying from $7\frac{5}{16}\%$ to $8\frac{1}{8}\%$. A condition of the loans is that they be liquidated from moneys received by the Company under certain sales agreements. A total of $2,600,000 was due to be repaid within one year.

The following is a summary of income and expense for the past two years:

	Year ended December 31	
	1969	1968
Income—		
Sales of products and services	$ 3,761,000	$ 1,451,000
Expense—		
Cost of products and services sold	3,499,000	1,117,000
Scientific research	697,000	590,000
Administration	421,000	380,000
Exploration	392,000	187,000
Marketing	131,000	125,000
	5,140,000	2,399,000
Net loss from operations	1,379,000	948,000
Interest and other non-operating income (net)	160,000	1,127,000
Net loss (income)	$ 1,219,000	$ (179,000)

The provision for depreciation in 1969 amounted to $707,000 and in 1968 to $846,000.

The increase in income from sales of products and services, and the related increase in cost of products and services sold, was due mainly to the sales of 295,000 pounds of concentrates in 1969. There were no sales of concentrates in the previous year. The sales were made from previous years' production and the entire 1969 production of 1,562,000 pounds from the Company's Beaverlodge mine remained in inventory at the year-end.

The decrease of $967,000 in interest and other non-operating income (net) was due mainly to the liquidation of investments.

The Governor in Council granted authority in 1963 and 1965 for the entry into contracts between Her Majesty the Queen in right of Canada represented by the Company and certain other uranium producers for the purchase of uranium concentrates for stockpiling by Canada. At December 31, 1969 the Company was the custodian of uranium concentrates thus acquired at a total cost of $91,120,000. Funds for the acquisition of these concentrates were provided by parliamentary appropriations and accordingly their cost was not included in the accounts of the Company.

Capital assets of the Company increased by $8.5 million compared with $13.9 million in the previous year. Major expenditure during the year included $7 million on the uranium hexafluoride plant and $1.1 million on the zirconium plant. The expenditure was financed partly from the Company's working capital and partly from loans obtained from Canada under Vote L3b, Appropriation Act No. 1, 1969. The capital expansion program is to be completed in 1970 and further loan funds are available for this purpose.

264. *Export Development Corporation.* This Corporation was established on October 1, 1969 by the Export Development Act, *1968-69, c.39,* to facilitate and develop export trade by the provision of insurance, guarantees, loans and other financial facilities. The Act declared the Corporation to be the successor to the Export Credits Insurance Corporation on that date and all property, rights, obligations and liabilities of the Export Credits Insurance Corporation became those of the Export Development Corporation. The Corporation is intended to operate on a self-sustaining basis. Its head office is in Ottawa and there are branches in Montreal, Toronto and Vancouver.

Section 27 of the Act provides that, where the Board of Directors is of the opinion that a proposed contract of insurance will impose upon the Corporation a liability for a term or in an amount in excess of that which the Corporation would normally undertake, the Governor in Council may authorize the Corporation to enter into the proposed contract. In the event of a loss on such a contract or on a similar contract previously entered into under section 21 of the Export Credits Insurance Act, *R.S., c.105,* all moneys required to discharge the liability are to be paid from the Consolidated Revenue Fund. The Corporation must not assume liabilities in excess of a total of $500 million under such contracts.

To further promote export trade, section 29 of the Act permits the Corporation to provide long-term financing for capital projects of substantial value. However, such financing under this section or section 21A of the Export Credits Insurance Act is not to exceed a total of $600 million. In addition, section 31 of the Act provides that where the Board is of the opinion that a proposed long-term financing agreement is for a term or in an amount in excess of that which the Corporation would normally undertake and the Minister is of the opinion that the proposed agreement is in the national interest,

the Governor in Council may authorize the Corporation to enter into the agreement. All moneys required with respect to contracts authorized by the Governor in Council are to be provided out of the Consolidated Revenue Fund but must not at any time exceed a total of $200 million.

The Crown's equity in the Corporation at December 31, 1969 was $291,292,000 consisting of share capital of $10,000,000, capital surplus of $10,000,000, an underwriting reserve of $6,000,000, reserve for losses of $310,000, retained earnings of $4,805,000, and loans and accrued interest totalling $260,177,000.

The underwriting reserve, established to provide for losses on contracts of insurance entered into on the Corporation's own account, remained unchanged at $6 million. At December 31, 1969 the reserve amounted to 2.8% of the Corporation's liabilities under these contracts compared with 3.1% of the corresponding liabilities of the predecessor Corporation at the end of the preceding year and 3.6% at the end of 1967.

Export sales insured by the Corporation and the predecessor Corporation on their own account during 1969 totalled $233 million compared with $247 million in 1968, and export sales insured at the risk of the Consolidated Revenue Fund totalled $9 million compared with $94 million in 1968. At December 31, 1969 the liability of the Corporation for contracts of insurance totalled $329 million of which $212 million was for contracts entered into on its own account and $117 million was for contracts entered into under section 27 of the Act and section 21 of the Export Credits Insurance Act. Premiums and guarantee fees earned on risks insured on the Corporation's own account amounted to $986,000 in 1969 compared with $932,000 in the previous year. Premiums received in respect of contracts entered into under section 27 of the Act are payable to the Receiver General subject to authorization from the Minister of Finance for the Corporation to retain as earnings a portion sufficient to recover expenses and overhead related to the administration of these policies. Premiums and guarantee fees earned on risks insured with Governor in Council authority under section 27 of the Act and section 21 of the Export Credits Insurance Act amounted to $93,000 for the year.

At December 31, 1969, after nine years of operations in the field of direct long-term financing of export sales under section 21A of the Export Credits Insurance Act and section 29 of the Export Development Act, the Corporation had entered into financing agreements totalling $467 million. A total of $355 million had been disbursed of which $105 million had been repaid. The Corporation's portion of interest and guarantee fees earned in respect of long-term financing agreements under the Export Credits Insurance Act totalled $409,000 for the nine months ended September 30, 1969 compared with $430,000 for the full 1968 year. For the three months ended December 31, 1969 the Corporation had net interest earnings of $493,000 in respect of long-term financing agreements under section 29 of the Act.

The following is a summary of operations of the Export Development Corporation for the three months ended December 31, 1969 combined with those of the Export

Credits Insurance Corporation for the nine months ended September 30, 1969, with comparable figures for the Export Credits Insurance Corporation for the previous year:

	Year ended December 31	
	1969	1968
Income—		
Premiums, guarantee fees and net interest earned on export financing	$ 1,981,000	$ 1,455,000
Expense—		
Salaries and employee benefits	1,125,000	785,000
Stationery, printing and office	81,000	58,000
Rent	100,000	77,000
Publicity and public relations	29,000	10,000
Travel	59,000	48,000
Communications	44,000	37,000
Other	108,000	183,000
	1,546,000	1,198,000
Operating income	435,000	257,000
Policyholders' claims—		
Payments	849,000	886,000
Recoveries	331,000	738,000
	518,000	148,000
Excess of policyholders' claims over operating income	83,000	(109,000)
Interest on investments	927,000	318,000
Net income	$ 844,000	$ 427,000

The increase of $609,000 in interest on investments was due to the payment to the Corporation by the Minister of Finance of additional capital of $5 million and additional paid-in surplus of $5 million which, together with $14 million formerly on deposit with the Receiver General in a non-interest-bearing account, were deposited on October 1, 1969 in an interest-bearing account with the Receiver General and earned $497,000 in interest.

The following is a summary of transactions in respect of claims paid to policyholders:

Nature of claim	Outstanding Jan. 1, 1969	Claims paid	Amounts recovered	Written off	Outstanding Dec. 31, 1969
Insolvency	$ 182,000	$ 16,000	$ 7,000	$ 21,000	$ 170,000
Default	879,000	781,000	215,000	178,000	1,267,000
Exchange transfer	1,424,000	47,000	109,000	(27,000)	1,389,000
Other	12,000	5,000	—	5,000	12,000
	$ 2,497,000	$ 849,000	$ 331,000	$ 177,000	$ 2,838,000

The Corporation anticipates substantial recoveries from the outstanding claims of $2,838,000 and the amounts recovered will be recorded as income in the year in which the recoveries are effected.

The Export Credits Insurance Corporation had been required to remit the Government's portion of interest earned on notes receivable, only when the interest payments were received. At September 30, 1969 accrued interest earned but not due amounted to $3,267,000. The Export Development Corporation maintains that as this amount was not payable to the Receiver General on that date, it could not become an obligation of the Corporation and should be retained by the Corporation. In our opinion, this would constitute improper retention of public money and we have asked the Corporation to seek the opinion of the Department of Justice.

265. *Farm Credit Corporation.* This Corporation was established in 1959 by the Farm Credit Act, *1959, c.43,* to make, administer and supervise long-term mortgage loans to farmers. The Corporation also administers the Farm Syndicates Credit Act, *1964-65, c.29,* which authorizes the making of loans to qualified syndicates of three or more farmers for the purchase of farm machinery for their co-operative use. The head office of the Corporation is in Ottawa and there are seven provincial branch and 122 field offices including the offices of 31 district supervisors.

The Crown's equity in the Corporation at March 31, 1970 was $1,157,888,000 comprising: capital, $43,800,000; loans from Canada, $1,083,927,000 (of which $4,920,000 was in respect of the Farm Syndicates Credit Act); accrued interest on loans from Canada, $28,769,000; a reserve for losses under the Farm Credit Act, $1,391,000; and retained earnings from operations under the Farm Syndicates Credit Act, $1,000.

During the year, 5,743 loans amounting to $158,018,000 were made under the Farm Credit Act compared with 9,117 loans totalling $205,341,000 in the previous year. Repayments of principal amounted to $82,647,000. Loans outstanding at March 31, 1970 with accrued interest amounted to $1,153,713,000 compared with $1,071,104,000 at March 31, 1969.

The following is a summary of the income and expense of the Corporation under the Farm Credit Act for the past two years:

	Year ended March 31	
	1970	1969
Income—		
Interest earnings	$ 58,473,000	$ 51,304,000
Deduct: Interest on loans from Canada	60,525,000	52,130,000
	(2,052,000)	(826,000)
Appraisal, supervision and legal fees, etc.	1,121,000	1,206,000
	(931,000)	380,000

	Year ended March 31	
	1970	1969
Expense—		
Salaries and employee benefits	$ 5,982,000	$ 5,217,000
Travel	583,000	575,000
Office accommodation	482,000	453,000
Postage, express, telephone and telegraph	142,000	129,000
Printing, stationery and office supplies	102,000	101,000
Rental and maintenance of office equipment	100,000	80,000
Depreciation	51,000	55,000
Appeal Boards—fees and expenses	10,000	16,000
Other	55,000	59,000
	7,507,000	6,685,000
Less: Portion allocated to operations under the Farm Syndicates Credit Act	28,000	39,000
	7,479,000	6,646,000
Net operating loss provided for by Agriculture Vote 70	$ 8,410,000	$ 6,266,000

With respect to operations under the Farm Syndicates Credit Act, the Corporation had income of $40,000 from earned interest (net) and service charges, wrote off loans of $19,000 and allocated expenses of $28,000 to these operations. The net loss of $7,000 was charged to retained earnings which left a balance of $1,000 at March 31, 1970. Since this Act came into force on December 11, 1964, the Corporation has made 745 loans totalling $6,569,000 repayable over a term not exceeding fifteen years. As at March 31, 1970 loans outstanding totalled $4,946,000 including accrued interest. The interest rate on new loans was increased from 7¾% to 8½% effective October 1, 1969.

Section 15 of the Farm Credit Act requires the Corporation to establish a reserve out of which may be paid "any losses sustained by the Corporation in the conduct of its business". The section further provides that the Corporation shall credit its net earnings each year to this reserve until the amount of the reserve equals the capital of the Corporation. At March 31, 1970 the capital of the Corporation amounted to $43,800,000 whereas the reserve for losses was only $1,391,000. In our report to the Minister of Agriculture under section 87 of the Financial Administration Act on the results of our examination of the accounts of the Corporation, we referred to the inadequacy of the former statutory lending rate of 5% on loans to farmers and the continuing deficiency in the reserve for losses.

By an amendment to the Farm Credit Act (*1968-69, c.6*), the statutory lending rate of 5% was abolished with effect from November 15, 1968 and the interest rate on loans to farmers is now prescribed for each interest period in accordance with the Farm Credit Act Interest Rates Regulations. On April 1, 1969 the rate was increased to 8% and on October 1, 1969 to 8¾%. However, these rates were applicable only to new loans and annual losses will continue with respect to loans made at the former statutory rate so

that for a considerable time there will be no net earnings to credit to the reserve for losses. Since 1963 the annual losses of the Corporation resulting from the low statutory interest rate have been recovered from annual parliamentary appropriations. This policy will prevent further depletion of the reserve by such losses, but does not provide for the building up of the reserve to an amount equivalent to the capital of the Corporation as is contemplated by the Farm Credit Act.

In 1969 we recommended to the Corporation that in view of the magnitude of its operations and the growing volume and value of its outstanding loans, consideration should be given to the appointment of an internal auditor. We have been advised that the Corporation is in the process of implementing this recommendation.

266. *The National Battlefields Commission.* This Commission was established by The National Battlefields at Quebec Act, *1908, c.57,* to acquire and preserve the historic battlefields at Quebec. The Commission consists of nine members, seven of whom are appointed by the Governor in Council and one each by the Provinces of Ontario and Quebec.

At March 31, 1970 the proprietary equity of the Crown in the Commission was $1,660,000, comprising capital assets of $1,636,000 and working capital of $24,000.

The following is a summary of the expense of the Commission for the past two years:

	Year ended March 31	
	1970	1969
Salaries, wages and employee benefits	$ 213,000	$ 231,000
Policing services	31,000	30,000
Repairs of roads, driveways and buildings	28,000	10,000
Light, heat, power, gasoline and oil	17,000	15,000
Operating supplies and nursery stock	10,000	12,000
Tree surgery	3,000	7,000
Other	19,000	17,000
	321,000	322,000
Capital outlay	16,000	13,000
	$ 337,000	$ 335,000

The expense for the year was met to the extent of $335,000 from Indian Affairs and Northern Development Vote 45 and $2,000 from miscellaneous income.

Funds contributed by provincial governments, municipalities and others, which may be used only for the acquisition of land with prior parliamentary approval, amounted with interest to $39,000 at March 31, 1970. There have been no transactions since 1938.

267. *National Capital Commission.* This Commission was established by the National Capital Act, *1958, c.37,* to succeed the Federal District Commission which had been established in 1927 as the successor to the Ottawa Improvement Commission formed in

1899. The objects of the Commission are "to prepare plans for and assist in the development, conservation and improvement of the National Capital Region in order that the nature and character of the seat of the Government of Canada may be in accordance with its national significance". The Commission consists of 20 members from across Canada appointed by the Governor in Council.

Subject to the control exercised by the Governor in Council, the Commission has wide powers including those relating to: acquisition and development of property; construction and maintenance of parks, roads, bridges, buildings and other works; undertaking joint projects with municipalities or making grants to municipalities; construction and operation of concessions; and the administration of historic buildings and sites.

At March 31, 1970 the Crown's equity in the Commission was $174,690,000 represented by capital assets at cost, $157,923,000, and working capital, $16,767,000. Excluded from these amounts is the value of properties expropriated but for which compensation had not been paid. This was estimated to be $8,000,000 at March 31, 1970, of which an estimated $500,000 will be reimbursed by the Bank of Canada under an agreement relating to the acquisition by the Commission of a block of land adjacent to the Bank's present holdings.

The Commission's activities are financed by annual parliamentary appropriations, by loans from Canada for the acquisition of property, by revenues from rentals, etc., and by sales of land acquired from the National Capital Fund. These sources provided net funds totalling $27,293,000 in 1969-70, bringing to $38,458,000 the funds available to the Commission as follows:

Balance in National Capital Fund, April 1, 1969		$ 9,168,000
Unexpended prior year loans from Canada		1,997,000
		11,165,000
Parliamentary appropriation to the National Capital Fund	$ 13,800,000	
Less: Amount used to repay loans from Canada	3,798,000	
		10,002,000
Parliamentary appropriation for operation, maintenance, administration and interest charges		10,247,000
Loans from Canada for the acquisition of property		5,500,000
Revenues		1,314,000
Sales of land acquired from the National Capital Fund		230,000
		27,293,000
		$ 38,458,000

Expenditures were $22,062,000 leaving a balance available for future expenditure of $16,396,000 at March 31, 1970, comprising $13,528,000 in the National Capital Fund and $2,868,000 in unexpended loans from Canada. At March 31, 1970 the Commission also had parliamentary authority to borrow a further $4,000,000 for property acquisitions in the Greenbelt, being the difference between the total amount of $43,300,000 authorized

by Parliament for this purpose and the $39,300,000 borrowed by the Commission. The following is a summary of expenditures for the past two years:

	Year ended March 31	
	1970	1969
Operating expenditure—		
Operation and maintenance of parks, parkways, government grounds, etc.	$ 4,557,000	$ 4,448,000
Interest charges on loans from Canada	3,448,000	3,831,000
Maintenance and rehabilitation projects and assistance to municipalities, etc.	2,990,000	2,132,000
Planning and administration	2,501,000	1,872,000
Grants in lieu of taxes	585,000	820,000
	14,081,000	13,103,000
Capital expenditure—		
Property acquisitions	4,935,000	3,466,000
Improvements to land and buildings	1,307,000	1,221,000
Parkways	1,020,000	834,000
Operating and office equipment	470,000	163,000
Other	249,000	423,000
	7,981,000	6,107,000
	$ 22,062,000	$ 19,210,000

The increase of $858,000 in costs of maintenance and rehabilitation projects and assistance to municipalities, etc., financed out of the National Capital Fund, is more than accounted for by expenditures of $1,190,000 for repairs to the Champlain Bridge, Ottawa, which had no counterpart last year. Planning and administration costs increased by $629,000 due largely to salary increases granted during the year.

Three items which had no counterpart last year more than accounted for the increase of $1,874,000 in capital expenditure. These items were: the cost of property acquisitions in downtown Hull, $2,187,000; improvements to the Transportation Building, Ottawa, which now serves as Commission headquarters, $451,000; and cost of new furniture for the headquarters building, $206,000.

During the year the major portion of property acquisitions continued to be financed by loans from Canada, and outstanding loans at March 31, 1970 totalled $67,128,000 compared with $65,876,000 at the end of the preceding year. This financing procedure, which is further dealt with in paragraph 210 of this Report, was considered by the Public Accounts Committee (see Appendix 1, items 7 and 22) and has been modified with effect from April 1, 1970. Loans are now to be authorized only for the acquisition and development of properties which are to be sold to other users, thereby enabling the Commission to make repayment, and for acquisitions of Greenbelt properties. Parliamentary appropriations will continue to be required for interest charges and for the repayment of earlier loans which were used to purchase property not intended for sale.

Paragraphs 81 to 85 in the "Comments on Expenditure and Revenue Transactions" section of this Report deal with several matters noted in the course of our examination of the financial transactions of the Commission.

268. *National Harbours Board.* This Board, which has its head office in Ottawa, was established in 1936 by the National Harbours Board Act, *R.S., c.187,* and has jurisdiction over the harbours of St. John's, Halifax, Saint John, Belledune, Chicoutimi, Quebec, Trois-Rivières, Montreal (including the Jacques Cartier and Champlain Bridges), Churchill and Vancouver, together with grain elevators at Prescott and Port Colborne.

The Crown's equity in the Board at December 31, 1969 was $512,967,000 comprising: equity represented by the cost of assets transferred to the Board on its establishment and subsequently, $74,641,000; loans and advances, $388,763,000; interest in arrears on loans and advances, $138,558,000; advances for the acquisition of debentures of Saint John Harbour Bridge Authority including accrued interest, $16,330,000; and reserves, $11,621,000; less the accumulated deficit of $116,946,000. The Crown also had an equity of $10,612,000 in certain projects on the Board's Montreal Harbour property relating to the Canadian Universal and International Exhibition, Montreal, 1967.

The increase in capital assets during the year included $582,000 for the transfer of developed land from the Canadian Universal and International Exhibition, Montreal, 1967, and $1,034,000 for the transfer of the Seaward Defence Base land and a building called H.M.C.S. Scotian in Halifax.

The Board's indebtedness to Canada for loans and advances increased by $8,019,000 during the year while interest in arrears increased by $12,004,000. The loans and advances and the arrears of interest thereon have increased steadily in recent years as shown in the following table:

December 31	Loans and advances	Interest in arrears on loans and advances
1961	$ 290,937,000	$ 64,786,000
1962	308,882,000	71,290,000
1963	316,787,000	78,559,000
1964	320,094,000	86,204,000
1965	323,212,000	93,285,000
1966	343,788,000	103,203,000
1967	365,643,000	114,561,000
1968	380,744,000	126,554,000
1969	388,763,000	138,558,000

In previous Reports we have observed that there was little prospect of the Board being able to meet its principal and interest obligations and recommended that the financial structure of the Board be reconstituted. In February 1967 the Public Accounts

Committee, in its Twelfth Report 1966-67, commented as follows (see Appendix 1, item 32):

> The Committee is concerned that there appears to be little prospect of the Board being in a position to meet its principal and interest obligations and recommends that the financial structure of the Board be reconstituted. In this connection it was pleased to receive assurances that this matter will be dealt with by the Department of Finance and the Board within the next twelve months.

The financial structure of the Board has not been reconstituted as the proposals made by the Department of Finance were not acceptable to the Board and counter proposals are under discussion. We are advised that further action on this matter was temporarily suspended because of overall studies being made of government policy with respect to harbours administration in Canada. Early in 1970 the Minister of Transport announced that the National Harbours Board will become part of the new "Canadian Marine Transportation Administration" created to "coordinate and develop all federal waterways and harbour services". Within the organizational structure of this Administration, authorities based on self-financing are to be set up to manage components of the system, such as major harbour complexes. No time-table for the implementation of the change-over was published.

Vote L106b, Appropriation Act No. 7, 1967, *1967-68, c.8,* authorized advances to the Board for the acquisition of debentures of the Saint John Harbour Bridge Authority. The debentures acquired amounted to $16,330,000 at December 31, 1969 including accrued interest of $1,654,000. They bear interest at rates of $6\frac{11}{16}$%, $7\frac{1}{16}$% and $7\frac{3}{8}$% and are to be redeemed between 1970 and 2020.

Montreal Harbour is adjacent to the site of the 1967 World Exhibition and some of the Board's properties were expanded to provide facilities to service the site. The larger projects involved the widening of MacKay Pier, the relocation of harbour railway tracks, the filling and grading of a parking lot, and the construction of a roadway which connects the University Street extension to the site and to the Champlain Bridge. These projects costing $11,194,000 were financed by parliamentary appropriations. Of this amount, property costing $582,000 was transferred to the control of the National Harbours Board in January 1969. Three parcels of land, comprising 9.8 million square feet, which were temporarily under the management and control of the Canadian Corporation for the 1967 World Exhibition, were transferred in December 1969 to the management, charge and direction of Central Mortgage and Housing Corporation until December 31, 1970. At that date the lands are to revert to the administration, management and control of the Board and the final allocation of the assets arising from the expenditure of $11,194,000 is to be made.

Until revocation of tolls on June 1, 1962, the Jacques Cartier Bridge was operated under a tripartite agreement which required both the City of Montreal and the Province of Quebec to pay to the Board one-third of any annual deficit arising from the operation of the Bridge to a maximum of $150,000 each. Since 1944 the Province has refused to make the required contributions and at the end of 1949 its accumulated indebtedness

amounted to $744,000. From 1950 until revocation of tolls the Bridge did not incur an operating deficit and the accounts of the Board continue to show this amount as due from the Province. Prior to September 1966 the Board was unable to institute legal proceedings against the Province without first obtaining a fiat from the Provincial Attorney General. In early 1967 the Board resubmitted its claim to the Province. In the same year the Board submitted the problem to a special committee of the Treasury Board Advisory Committee on Real Property but no solution was forthcoming. In August 1970 the Board reported to the Federal-Provincial Relations Secretariat of the Privy Council Office on several other problems in the Montreal-Longueuil area of Quebec but made no specific reference to this problem. (See also paragraph 57 of this Report.)

The following is a summary of the operations of the National Harbours Board for the past two years:

		Year ended December 31	
		1969	1968
Income—			
Berthing facilities		$ 4,906,000	$ 4,372,000
Shore facilities		28,185,000	28,428,000
Bridges		2,437,000	2,093,000
Miscellaneous		2,190,000	1,852,000
		37,718,000	36,745,000
Expense—			
Operation and maintenance:			
Berthing facilities	$ 1,680,000		1,670,000
Shore facilities	9,319,000		10,227,000
Bridges	1,873,000		1,478,000
Support services	8,063,000		8,974,000
		20,935,000	22,349,000
Depreciation		7,609,000	7,135,000
Grants in lieu of municipal taxes		5,278,000	4,063,000
Administration:			
Salaries of Board Members and executive officers	157,000		144,000
Other salaries	2,721,000		1,829,000
Contributions to employee pension plans	169,000		101,000
Office expense	1,323,000		927,000
Miscellaneous	248,000		171,000
		4,618,000	3,172,000
		38,440,000	36,719,000
Excess of expense over income		722,000	(26,000)
Interest expense—			
Interest on loans and advances from Canada	14,973,000		14,139,000
Less: Interest received on investments	4,196,000		3,626,000
		10,777,000	10,513,000
Deficit for the year		$ 11,499,000	$ 10,487,000

The new chart of accounts adopted by the Board effective January 1, 1969 made it difficult to restate 1968 figures in the current year's format. However, the comparative statement of operations has the 1968 figures adjusted to the 1969 basis which permits an adequate if not exact comparison to be made.

The increase in operating income of $973,000 was due largely to: an increase in the wharfage tariff effective November 1, 1968; an increase in harbour dues effective June 1, 1969; the heavy influx of shipping during January to April, resulting from the longshoremen's strike at East Coast United States ports; an increase in revenue from tolls on the Champlain Bridge; and an increase in miscellaneous income from support services, again due to the strike at East Coast United States ports and to longer stays while awaiting export cargoes. Offsetting these increases was a reduction in revenue from handling due to the discontinuation of handling operations at Vancouver in September 1968.

Operation, maintenance and administration expenses increased by $1,721,000 or 5% over the previous year. Contributing factors were: salary and wage rates; a general escalation in costs of supplies; grants to municipalities which increased, with the approval of the Governor in Council, from 87.5% to 100% of what would be payable if the Board were a normal municipal taxpayer; and depreciation. There was an offsetting reduction in handling charges at Vancouver due to the discontinuation of handling operations in September 1968.

Paragraphs 113 to 118 and item 9 in paragraph 182 in the "Comments on Expenditure and Revenue Transactions" section of this Report deal with several matters noted in the course of our examination of the financial transactions of the Board.

269. *Northern Canada Power Commission.* This Commission, established in 1948 under the Northern Canada Power Commission Act, *R.S., c.196,* consists of three members appointed by the Governor in Council. The objects of the Commission are to construct and operate electric power plants and other public utilities and to supply power and utilities to users in the Northwest Territories and the Yukon Territory and, with the approval of the Governor in Council, in any other part of Canada. The Commission, with its head office in Ottawa, operates nineteen power plants including a diesel generating plant at Fort Good Hope, N.W.T., which became operative in November 1969, five heating plants, seven sewerage systems and seven water systems.

The Crown's equity in the Commission at March 31, 1970, comprised:

Advances	$ 45,310,000
Cost of:	
Central heating, water and sewerage and fire alarm systems at Inuvik, N.W.T., financed by parliamentary appropriations	8,301,000
Extension, expansion and improvements of capital assets financed from earnings	999,000
Reserve for contingencies	2,625,000
Retained earnings	1,732,000
	$ 58,967,000

The Commission also acts as agent for Canada in respect of loans of $184,939,000 made to provincial power commissions under the Atlantic Provinces Power Development Act, *1957-58, c.25.*

The following is a summary of the income and expense of the Commission for the past two years:

	Year ended March 31	
	1970	1969
Income—		
Sale of power	$ 6,555,000	$ 5,047,0C0
Income arising from construction, maintenance and operation of facilities for government departments and others	1,548,000	1,190,000
Sale of heat	1,228,000	1,044,000
Miscellaneous	319,000	260,000
	9,650,000	7,541,000
Expense—		
Operation and maintenance	5,457,000	4,341,000
Interest on advances from Canada	1,557,000	1,447,000
Depreciation	862,000	888,000
Administration	581,000	512,000
	8,457,000	7.188,000
Net income	$ 1,193,000	$ 353,000

The increase of $1,508,000 in income from the sale of power is mainly attributed to the extension of a power line from Whitehorse to Faro, Y.T., increased demand for power required to service the Pine Point, Yellowknife and Inuvik communities in the Northwest Territories, the operation for a complete year of plants at Baker Lake, Chesterfield Inlet and Norman Wells in the Northwest Territories and the commencement of operation of the plant at Fort Good Hope in November 1969. The increase of $358,000 in income arising from construction, maintenance and operation of facilities for government departments and others is due mainly to construction of substations for Canadian National Telecommunications, and installation of additional sewerage facilities at Inuvik and Frobisher Bay. The increase of $184,000 in the sale of heat is largely attributed to the expansion of services provided at Frobisher Bay.

The increase of $1,116,000 in operation and maintenance expense is mainly due to increases of $309,000 in salaries and wages, $308,000 in plant expense including improvements, $252,000 in fuel and lubricants, and $141,000 in materials and supplies. Activities at new plants, an increase in the number of employees, salary increments, and a general increase in price levels were the main contributing factors.

Paragraphs 131, 132 and 133 in the "Comments on Expenditure and Revenue Transactions" section of this Report deal with several matters noted in the course of our examination of the financial transactions of the Commission.

270. *Northern Transportation Company Limited and subsidiary company.* Northern Transportation Company Limited, a wholly-owned subsidiary of Eldorado Nuclear Limited, was incorporated in 1947 under the provisions of the Canada Corporations Act, *R.S., c.53,* to take over the business of a predecessor company whose shares had been acquired when the capital stock of a privately-owned company was expropriated by the Crown in 1944. In 1965 the Company acquired the capital stock of Yellowknife Transportation Company Limited, Arctic Shipping Limited and Decury Supply Limited and their operations have been integrated with those of the parent. During the year Arctic Shipping Limited and Decury Supply Limited were dissolved and struck off the Register of Companies.

The Company is empowered to carry on a general transportation business by land and water throughout Canada and elsewhere, but activities have been almost wholly confined to the Mackenzie River system and the Western Arctic. The head office of the Company is in Ottawa and administrative headquarters are in Edmonton.

The equity of Eldorado Nuclear Limited in the Company at December 31, 1969 was $9,017,000 comprising capital stock of $152,000, a reserve for insurance of $500,000, contributed surplus of $1,004,000, and retained earnings of $7,361,000.

The reserve for insurance is fully funded in short-term deposits. Its purpose is to provide for the replacement of any assets destroyed by fire, explosion or other catastrophe. Notwithstanding the increase in the net book value of assets from $6,236,000 at December 31, 1966 to $16,230,000 at December 31, 1969, the reserve has remained constant in the amount of $500,000. However, the Company carries commercial insurance totalling $2,900,000.

Under the provisions of "An Act to amend the Income Tax Act and to repeal the Canadian Vessel Construction Assistance Act", *1966-67, c.91,* an owner of a vessel, at the time of its disposal, may deposit with the Department of Industry, Trade and Commerce an amount at least equal to the tax that would otherwise be payable in respect of the proceeds of disposition. Such a deposit may be paid out to any person who, before 1974, acquires a vessel constructed in Canada or incurs conversion costs in Canada with respect to a vessel, under conditions satisfactory to the Minister of Industry, Trade and Commerce. During the year the Company acquired three such deposits in connection with the construction by the Company of three tugs and twenty-four barges. These deposits totalled $3,798,000 of which $2,716,000 was remitted to the original depositors, $73,000 was paid to brokers for negotiating the transactions, $5,000 was disbursed as legal fees, and the balance of $1,004,000 was recorded by the Company as contributed surplus.

Loans aggregating $11,000,000 were provided for by Vote L70 in 1968-69, Appropriation Act No. 4, 1968, *1968-69, c.11,* and Vote L90 in 1969-70, Appropriation Act No. 3, 1969, *1968-69, c.36,* to finance the acquisition of transportation facilities for use on the Mackenzie River and Central Arctic Coast. During the year the Company borrowed $10,000,000 at interest rates ranging from $7\frac{1}{8}\%$ to $7\frac{3}{4}\%$ and repaid $1,000,000. Of the

loans outstanding at the year-end, $2,000,000 is repayable within one year and is included, together with accrued interest of $141,000, as a current liability. The remaining $7,000,000 is repayable in the years 1971 to 1974.

The following is a summary of the results of the Company's operations for the past two years:

	Year ended December 31	
	1969	1968
Income—		
Freight earnings	$ 8,492,000	$ 5,477,000
Expense—		
Operation and maintenance:		
Salaries and wages	2,600,000	1,894,000
Depreciation	2,128,000	889,000
Repairs and maintenance	1,226,000	890,000
Fuels and lubricants	465,000	307,000
Messing	144,000	135,000
Other	457,000	303,000
	7,020,000	*4,418,000*
Administration	579,000	521,000
	7,599,000	4,939,000
Net income from operations	893,000	538,000
Miscellaneous income	82,000	(150,000)
	975,000	388,000
Interest on loans from Canada	468,000	—
	507,000	388,000
Provision for income tax	251,000	194,000
Net income	$ 256,000	$ 194,000

Freight earnings increased by $3,015,000 due to an additional 62,000 tons hauled along the Mackenzie River to Arctic areas. Much of the increased tonnage consisted of oil drilling and exploration equipment as a result of increasing oil exploration in these areas.

The increase of $706,000 in salaries and wages was due mainly to higher wage rates, a larger work force to handle the additional tonnage hauled, and a shipping season that was ten days longer than in the previous year.

Depreciation increased by $1,239,000 to $2,128,000. The increase reflects the depreciation charged on capital expenditure of $11,934,000 in 1969 and a full year's depreciation of $108,000 in 1969 on assets acquired in 1968 but not depreciated in that year as they were not used prior to the 1969 shipping season.

The increase of $336,000 in repairs and maintenance resulted mainly from abnormal damage to marine equipment due to the Mackenzie River being at its lowest level in

thirty-five years. Additional expenses were also incurred to bring some of the stand-by equipment used during the year to seaworthy standards.

Fuel and lubricant costs increased by $158,000 because of the additional freight hauled.

Miscellaneous income consisted of $77,000 for interest on investment of surplus working capital in short-term deposits, an increase of $29,000 over the previous year, and a gain on disposal of capital assets, $5,000. In the previous year a loss of $198,000 was experienced on the disposal of capital assets.

271. *Polymer Corporation Limited and subsidiary companies.* Polymer Corporation Limited was incorporated in 1942 under the Canada Corporations Act, *R.S., c.53,* pursuant to the provisions of section 6 of the Department of Munitions and Supply Act, *1939, c.3,* for the purpose of producing synthetic rubbers and chemicals. The head office of the Company is in Sarnia, Ont.

During the year the Company acquired a 43% interest in Silmex S.A. de C.V., Mexico, and incorporated two wholly-owned subsidiaries, Polysar Handelmaatschappij, N.V., the Netherlands, and Polysar Skandinaviska, A.B., Sweden. The accounts of these subsidiaries will be consolidated in the year ended December 31, 1970. By a proclamation of May 15, 1969 pursuant to the provisions of the Government Companies Operation Act, *R.S., c.133,* the Company ceased to be an agent of Her Majesty.

At December 31, 1969 the Company had thirteen wholly-owned subsidiaries: three in Switzerland, two each in the Netherlands and Canada and one each in Britain, Belgium, Italy, Mexico, Sweden and the United States. The Company also held a 95% equity in two subsidiaries in France and was a minority shareholder in companies in Mexico and South Africa in which it had invested $6,507,000. Except to the extent of dividends received, no provision has been made in the accounts for the profits or losses of companies in which the Company is a minority shareholder.

The equity of the Crown in Polymer Corporation Limited and its subsidiary companies at December 31, 1969 amounted to $113,748,000, comprising capital stock of $30,000,000 and retained earnings of $83,748,000. Dividends of $6,000,000 paid to the Receiver General in 1969 were $3,000,000 greater than in 1968.

Net additions to fixed assets amounted to $8,939,000. Major expenditures included the conversion to gas of the steam and power plant at Sarnia, additional styrene-butadiene rubber capacity at Strasbourg, France, completion of a new isobutylene plant at Antwerp, Belgium, as well as replacements and improvements to existing production facilities.

Long-term liabilities totalled $38,339,000 at the year-end. Of this amount $17,008,000 is payable in Canadian currency and the balance in foreign currencies as follows: F. fr. 31,125,000 ($6,854,000), B. fr. 519,750,000 ($11,237,000) and US $3,000,000 ($3,240,000).

The following is a summary of the operations of the Company and its subsidiaries for the past two years:

	Year ended December 31	
	1969	1968
Income—		
Sales	$ 155,718,000	$ 142,101,000
Other	4,252,000	1,800,000
	159,970,000	143,901,000
Expense—		
Cost of sales	123,429,000	117,431,000
Selling, administration and research	17,199,000	15,692,000
	140,628,000	133,123,000
Net income before provision for income tax and extraordinary items	19,342,000	10,778,000
Provision for income tax	5,540,000	2,621,000
Extraordinary items	—	1,199,000
	5,540,000	*3,820,000*
	13,802,000	6,958,000
Adjustment re minority shareholders	21,000	80,000
Net income	$ 13,823,000	$ 7,038,000

The increase of $6,785,000 in net income resulted from record sales and continued improvement in cost performance.

272. *Royal Canadian Mint.* Section 72 of the Government Organization Act, 1969, *1968-69, c.28,* incorporated the Royal Canadian Mint effective April 1, 1969 with the objects of minting coins in anticipation of profit and carrying out other related activities. The Board of Directors of the Mint consists of a Chairman, the Master of the Mint and five other directors. Formerly, the Mint operated under Part II of the Currency, Mint and Exchange Fund Act, *R.S., c. 315,* (see paragraph 304 of our 1969 Report).

The Crown's equity in the Mint at December 31, 1969 was $4,224,000 consisting of working capital of $4,150,000 and equipment of $74,000. The main equipment of the Mint is rented from the Department of Finance.

The following is a summary of the results of operations for the nine months ended December 31, 1969:

Income—	
Sales	$ 7,124,000
Refining charges	362,000
	7,486,000

Expense—

Cost of coin and medals sold	$ 4,207,000
Salaries, wages and employee benefits	1,774,000
Building and equipment rental	331,000
Utilities and supplies	245,000
Security	144,000
Interest on loan	109,000
Transportation and communications	49,000
Repairs and maintenance	17,000
Other	23,000
	6,899,000
Excess of income over expense	$ 587,000

Operating costs do not include the cost of cheque issue and payroll services provided by the Department of Supply and Services which have not been determined by that Department. These costs should be borne by the Mint in line with the general policy that Crown corporations pay for such services.

The following inventories were held on behalf of the Department of Finance at December 31, 1969: coin, $14,224,000 (face value); gold bullion, $7,517,000; and silver bullion, $1,149,000. The Mint also held for safekeeping gold bullion valued at $2,072,000 which was owned by others.

Section 20 of the Currency, Mint and Exchange Fund Act, which required that "the Auditor General shall, at least once in each year, inspect the store of bullion and coin at the Mint", was repealed with effect from April 1, 1969. Section 93(2) of the Government Organization Act, 1969 provides that:

> The Auditor General shall inspect the inventories of stores and metals of the Mint at least once in each year.

As is pointed out in paragraph 306 of this Report, because the store of bullion and coin remains the property of the Department of Finance, there is now no statutory requirement that it be inspected by the Auditor General "at least once in each year". Such counts will be made from time to time as part of our regular audit of the Department of Finance but there will not necessarily be a complete annual inspection of the store of bullion and coin unless Parliament or the Public Accounts Committee indicates a desire that this be done.

273. *The St. Lawrence Seaway Authority.* Established by the St. Lawrence Seaway Authority Act, *R.S., c.242,* the Authority maintains and operates the Canadian section of the 27-foot deep waterway between the Port of Montreal and Lake Erie, comprising the Montreal—Lake Ontario Section and the Welland Canal. The section of the Seaway in the United States is operated by the Saint Lawrence Seaway Development Corporation. Toll revenues derived from the operation of the Montreal—Lake Ontario Section are divided between the two Seaway entities in accordance with an agreement approved by the Governments of Canada and the United States.

The Authority also operates non-toll canals at Lachine, Que., Cornwall, Ont., and Sault Ste. Marie, Ont., the net operating cost being provided for by annual parliamentary appropriations.

The Authority is a corporation consisting of a president and two other members appointed by the Governor in Council. Its head office is at Ottawa, with operating headquarters at Cornwall, Ont., and regional headquarters at St. Lambert, Que., and St. Catharines, Ont.

The Crown's equity in the Authority at December 31, 1969 was $612,285,000 comprising capital assets transferred from the Department of Transport (Welland Canal), $130,255,000, loans, $474,450,000, deferred interest, $71,919,000; less accumulated deficit, $64,339,000.

The overall operating results of the Authority in respect of the Montreal—Lake Ontario and of the Welland Sections of the Seaway for the past two years are as follows:

	Year ended December 31	
	1969	1968
Income—		
Tolls	$ 18,139,000	$ 19,897,000
The Seaway International Bridge Corporation, Ltd.—net income	216,000	162,000
Other	2,246,000	1,992,000
	20,601,000	22,051,000
Expense—		
Operation and maintenance	11,930,000	11,805,000
Engineering	2,759,000	2,582,000
Headquarters administration	2,756,000	2,403,000
Construction branch	2,327,000	2,224,000
Regional administration	1,848,000	1,645,000
	21,620,000	20,659,000
Portion allocated to:		
Construction	3,506,000	3,424,000
Non-toll canals	570,000	492,000
	4,076,000	3,916,000
	17,544,000	16,743,000
Net operating income before providing for interest and for replacement of machinery and equipment	3,057,000	5,308,000
Interest on loans from Canada	18,599,000	17,919,000
Provision for replacement of machinery and equipment	973,000	926,000
Interest on claims	46,000	—
	19,618,000	18,845,000
Net loss	$ 16,561,000	$ 13,537,000

The following summary shows the operating results of the Montreal—Lake Ontario Section for the year compared with the preceding year together with the cumulative operating results from the opening of the Seaway in 1959:

	Year ended December 31 1969	1968	Cumulative to December 31, 1969
Income—			
Tolls	$ 15,636,000	$ 18,141,000	$ 138,432,000
Other income	1,212,000	1,207,000	6,904,000
	16,848,000	19,348,000	145,336,000
Expenses of operation, maintenance and administration	6,715,000	5,771,000	40,337,000
Net operating income	10,133,000	13,577,000	104,999,000
Interest on loans	17,743,000	17,206,000	159,099,000
Interest on claims	46,000	—	491,000
Provision for replacement of machinery and equipment	973,000	926,000	9,568,000
Assets written off	—	—	180,000
	18,762,000	18,132,000	169,338,000
Deficit	$ 8,629,000	$ 4,555,000	$ 64,339,000

The decrease of $2,505,000 in tolls is due to a decrease in Seaway tonnage to 53 million tons from 58 million tons in 1968.

Section 16 of the St. Lawrence Seaway Authority Act requires that the tolls provide revenues sufficient to defray the cost of operations including provision for repayment of the capital indebtedness. The foregoing summary of operating results shows that since the opening of the Seaway in 1959 a deficit of $64 million has accumulated without any provision for repayment of the capital indebtedness of $332 million which the Act requires be met from earnings by December 31, 2009. If this obligation is to be met, toll revenues over the 40 years from 1970 to 2009 must average over $26 million annually on the basis of 1969 costs. The toll revenues for 1969 were $10 million short of meeting this requirement.

The operating results of the Welland Section of the Seaway for the past two years are as follows:

	Year ended December 31 1969	1968
Expense of operation, maintenance and administration	$ 10,829,000	$ 10,972,000
Income—		
Lockage fees	2,502,000	1,756,000
Rentals, wharfage, etc.	1,251,000	947,000
	3,753,000	2,703,000
Net operating loss	7,076,000	8,269,000
Interest on loans	856,000	713,000
Deficit provided for by Transport Vote 90	$ 7,932,000	$ 8,982,000

With the opening of the Seaway in 1959 the operation and management of the Welland Canal became a responsibility of The St. Lawrence Seaway Authority. Tolls were suspended in 1962 and the annual operating deficits since 1959, totalling $70,-445,000 to December 31, 1969, have been recovered from parliamentary appropriations. In 1967 a lockage fee of $20 a lock was introduced increasing by $20 a year to reach $100 a lock in 1971.

An agreement made in 1959 between the Authority and the Saint Lawrence Seaway Development Corporation established a joint tariff of tolls for the Seaway. The agreement provided that the division of tolls from the operation of the Montreal—Lake Ontario Section would be initially 71% to the Authority and 29% to the Corporation, and that these percentages would be adjusted from time to time so that the Authority and the Corporation would receive a portion of the tolls in the ratio of their respective annual charges for operation, maintenance, interest and retirement of debt to their combined annual charges in respect of that portion of the Seaway.

In March 1967 the Governments of Canada and the United States agreed to continue the existing schedule of tolls for the Montreal—Lake Ontario Section, to divide tolls on the basis of 73% to the Authority and 27% to the Corporation, and that the sufficiency and division of tolls might, at the request of either entity, be reviewed at the end of the 1970 navigation season, with a view to any necessary adjustment in accordance with the provisions of the 1959 agreement.

The original conditions under which loans were made to the Authority for the Montreal—Lake Ontario Section of the Seaway under section 25 of the Act required the payment of interest only, in the first three full years of operation (through the year ended December 31, 1962), and thereafter payment of annual amounts sufficient to amortize all loans and interest thereon over a period of forty-seven years (or by December 31, 2009). The terms of the Authority's financing arrangements were amended in 1961, 1963, 1964, 1967 and again in 1968 and now provide that loans in respect of the Montreal—Lake Ontario Section of the Seaway, together with interest, are to be repaid in such amounts each year as the cumulative net profits of the Montreal—Lake Ontario Section, before amortization of the loan principal, will permit. Unpaid interest bears interest until paid and the principal and interest are to be fully paid on or before December 31, 2009. At December 31, 1969, loans in respect of the Montreal—Lake Ontario Section amounted to $332,500,000 and unpaid interest to $66,521,000.

For the Welland Section, loans to finance improvements totalled $141,950,000 of which $72,500,000 is interest-free and the balance of $69,450,000 provided since September 22, 1966 bears interest, of which $5,398,000 was outstanding at December 31, 1969. Interest on all loans subsequent to September 22, 1966 is to be accrued in the accounts but is not to be paid until December 31 of the year in which the Minister of Transport determines that the Welland Canal twinning project is com-

pleted, at which time the terms of principal repayment for the loans are to be determined by the Governor in Council.

The costs of operating and maintaining the canals and works under the administration of the Authority are defined in section 16 of the St. Lawrence Seaway Authority Act as including all operating costs of the Authority and such reserves as may be approved by the Minister, together with loan interest and amortization of loan principal. The Authority is of the opinion that it is not necessary to include depreciation as an element of operating and maintenance cost and that the amortization over the fifty-year period of the principal of the amounts borrowed together with the interest meets the requirements of this section. Accordingly, no provision for depreciation has been included in the costs of the year. It is important to note, however, that no amortization of principal has been made up to December 31, 1969, and while interest has been accrued annually, payment of a substantial portion thereof has been deferred.

As in previous years, provision was made for replacement of lock, bridge and building machinery and equipment of the Montreal—Lake Ontario Section. The provision for 1969 amounted to $973,000 and the accumulated provision to December 31, 1969 amounted to $9,158,000. As in prior years, no provision was made in 1969 for replacement of machinery and equipment for the Welland Section.

The following matters have been outstanding for some years:

(a) In 1956 an arrangement was made between the Authority and three municipalities whereby the municipalities would contribute $250,000 towards the cost of extending the collector sewer which was then being constructed as the main part of the Authority's South Shore remedial works. In 1961 two of the three municipalities passed official resolutions to accept the 1956 proposal and to share in the $250,000 contribution. The sewer extension was completed in 1963 at a cost of $480,000 and the municipalities were billed in February 1964 for their contribution. No payment has been received by the Authority from the municipalities, two of which are said to be under trusteeship of the Province of Quebec because of financial difficulties. During 1966 the Department of Justice, on behalf of the Authority, appointed an agent to take legal proceedings. On September 18, 1970 details of the matter were conveyed to the Federal-Provincial Relations Secretariat of the Privy Council Office.

(b) The Beauharnois Canal, constructed by the Beauharnois Light, Heat and Power Company, was conveyed to the Crown in 1932 with the Company, which has since been taken over by the Quebec Hydro-Electric Commission, retaining the responsibility for certain operating and maintenance expenses of the Canal. The Canal became part of the St. Lawrence Seaway in 1959. The Authority has not been reimbursed its maintenance expenses on the Canal since 1962 as the Commission takes the stand that it is not responsible for these costs because of provincial legislation passed in 1962 which dissolved the Beauharnois Light, Heat and Power Company. Settlement of the issue continues to rest with the federal and provincial governments.

The following table summarizes for the past two years the expense, income and capital expenditure relating to the non-toll canals operated or administered by the Authority:

	Year ended December 31	
	1969	1968
Expense—		
Operation and maintenance	$ 1,746,000	$ 1,777,000
Grants in lieu of municipal taxes	554,000	505,000
Portion of Authority's administration and engineering expenses applicable to non-toll canals	570,000	492,000
Interest	—	31,000
	2,870,000	2,805,000
Income from rentals, wharfage, etc.	667,000	656,000
Operating deficit	2,203,000	2,149,000
Capital expenditure	22,000	97,000
Operating deficit and capital expenditure	$ 2,225,000	$ 2,246,000
Operating deficit and capital expenditure provided for by—		
Transport Vote 85 of 1969–70	$ 1,796,000	$ —
Transport Vote 85 of 1968–69	429,000	1,777,000
Transport Vote 80 of 1967–68	—	469,000
	$ 2,225,000	$ 2,246,000

274. *The Seaway International Bridge Corporation, Ltd.* This Corporation was incorporated in 1962 under the Canada Corporations Act, *R.S., c.53,* pursuant to section 24A of the St. Lawrence Seaway Authority Act, *R.S., c.242,* as a subsidiary of The St. Lawrence Seaway Authority to operate and manage the international toll bridge between Cornwall, Ont. and Rooseveltown, N.Y. The bridge is jointly owned by The St. Lawrence Seaway Authority and the Saint Lawrence Seaway Development Corporation (a United States Government corporation). The Authority's interest is represented by capital stock of $8,000 and promissory notes for $17,000 and the Corporation's interest by debentures of $8,000 and promissory notes for $17,000. Each entity has four representatives on the Board of Directors.

Under the terms of the bridge operating agreement between the Authority and the Corporation, the annual net income from operation of the bridge system is to be first applied towards the amortization of the cost, including interest, of the North Channel Bridge and the remainder, if any, divided equally between the Seaway entities.

The following is a summary of the operations of The Seaway International Bridge Corporation, Ltd. for the past two years:

	Year ended December 31	
	1969	1968
Income—		
Bridge tolls	$ 483,000	$ 448,000
Other	21,000	18,000
	504,000	466,000
Expense—		
Salaries, wages and employee benefits	211,000	169,000
Grant in lieu of municipal taxes	17,000	15,000
Maintenance materials and services	16,000	12,000
Rental of toll collection machines	13,000	13,000
Advertising	12,000	11,000
Other	19,000	84,000
	288,000	304,000
Net income—transferred to The St. Lawrence Seaway Authority	$ 216,000	$ 162,000

The amount of $216,000 was transferred to The St. Lawrence Seaway Authority to be applied towards the amortization of the cost, including interest, of the North Channel Bridge. As this amount was insufficient to cover even the interest charges of $521,000 for the year, the unamortized balance increased by $305,000 from $10,395,000 at December 31, 1968 to $10,700,000 at December 31, 1969.

Departmental Operating Activities

275. In previous Reports (paragraph 288 in 1969) we commented on the inadequacies of existing information on departmental operating activities and recommended the development of more informative financial statements covering these activities as an aid to effective management. The Financial Administration Act does not provide statutory direction to departments and non-corporate agencies for the preparation of financial statements on trading and servicing operations, but a number of departments and agencies prepare such statements and some of these are examined by the Audit Office.

To provide Parliament with a clear understanding of the financial results of departmental operating activities, we have advocated the publication in the Public Accounts of appropriate financial statements showing the overall results of operations by departments and non-corporate agencies engaged in trading and servicing activities. Such statements should be on an accrual basis and include depreciation charges on buildings and equipment, interest on funds employed and the value of services provided without charge by other government departments. The operating results shown by the statements should be reconciled with those recorded on a cash basis. Each balance sheet, which the Audit Office would be prepared to examine and report on, should show clearly the year-end position of the activity.

This view is supported by the Public Accounts Committee which in its Fourth Report 1963 reiterated its belief that "it would be desirable, in order that Members may have a clear understanding of the true financial results of departmental trading and servicing activities, were overall financial statements reflecting these activities to be included in the Public Accounts provided that this can be done without undue cost or staff increases". It requested the Auditor General "to continue to keep the development of this objective under close surveillance and to report thereon to the Committee in due course".

The Royal Commission on Government Organization in its report on Financial Management recommended that accounts of departments and agencies conducting trading and servicing operations be maintained on an accrual basis to show clearly the costs of operations. The Commission also advocated greater use of revolving funds and accountable advances to encourage the use of business-type budgeting and production of meaningful operating statements to assist Parliament and aid management in the control of its costs.

In 1966 the Treasury Board issued a policy statement on the establishment and use of revolving funds and working capital advances and recommended that they be used to finance specific activities and programs. This has been superseded by circular letter No. 1970-7, dated January 8, 1970, which sets out the regulations, effective April 1, 1970, which will govern the establishment and operation of revolving funds and working capital advances, subject to any Act of Parliament.

The circular letter points out that the operations of revolving funds should be planned in such a manner that they will be self-sustaining with total costs to be provided for and recovered in the charges made for services rendered. These costs are to include not only direct outlays for salaries, materials and supplies but a provision for replacement of capital facilities, interest on outstanding capital advances and costs of common services provided by other agencies.

The circular letter further stipulates that the accounting systems should be on an accrual basis whenever necessary. In addition to recording operating expenses and receipts they must provide for cost accounting and other records which will permit the ready and regular production of manufacturing and trading statements and balance sheets equivalent to those which would normally be expected for similar operations in the private sector. At the end of each fiscal year a balance sheet, an operating statement and a statement of the disposition of the surplus or deficit are to be prepared for each revolving fund and working capital advance and submitted to the Auditor General for certification. This new directive is a further step towards the objectives which we have been advocating with the support of the Public Accounts Committee.

Some progress has been made as is indicated by the statements of trading and servicing activities of a number of departments and agencies presented in the paragraphs which follow.

276. *Agricultural Products Board.* This Board operates under the authority of the Agricultural Products Board Act, *R.S., c.4,* and consists of a chairman and two members appointed by the Governor in Council. The Act empowers the Board, under the direction of the Minister of Agriculture and subject to approval of the Governor in Council, to buy, sell, or import, and to store, transport or process agricultural products. The Agricultural Products Board Account was established in the Consolidated Revenue Fund in accordance with section 5 of the Act and all financial transactions of the Board are recorded in this Account. The Board's activities are administered by personnel of the Department of Agriculture and the members of the Board also serve on the Agricultural Stabilization Board.

There were no inventories at March 31, 1970 and the Crown had no equity in the Account at that date.

A summary of the results of operations for the past two years follows:

	Year ended March 31	
	1970	1969
Trading operations—		
Sales of whole egg powder and egg mélange	$ 518,000	$ 14,000
Cost of sales	595,000	15,000
Loss on trading operations	77,000	1,000

	Year ended March 31	
	1970	1969
Estimated value of major services provided without charge by government departments—		
Interest on working capital	$ 16,000	$ 36,000
Administration	1,000	5,000
	17,000	*41,000*
Loss for the year	$ 94,000	$ 42,000
Loss for the year provided for by—		
Agriculture Vote 17	$ 77,000	$ 1,000
Government departments which provided major services without charge	17,000	41,000
	$ 94,000	$ 42,000

277. *Agricultural Stabilization Board.* This Board, consisting of three members appointed by the Governor in Council, was established by the Agricultural Stabilization Act, *1957-58, c. 22,* and has the responsibility for stabilizing prices of agricultural commodities at levels bearing a fair relationship to their cost of production. Stabilization measures take the form of the purchase of commodities at prescribed prices, payment to producers of amounts by which prescribed prices exceed those determined by the Board to be the average prices at which commodities are currently being sold, or payments to processors for the benefit of producers. The activities of the Board are financed by the Agricultural Commodities Stabilization Account which has been established in the Consolidated Revenue Fund in accordance with section 13 of the Act. The net operating losses on the operations of the Account and the administrative expenses of the Board are met from moneys appropriated by Parliament for the purpose.

There were no inventories at March 31, 1970 and the Crown had no equity in the Account at that date.

The results of the Board's activities for the past two years are summarized as follows:

	Year ended March 31	
	1970	1969
Payments to the Canadian Dairy Commission for stabilization of the price of milk for the benefit of producers	$ 131,857,000	$ 134,847,000
Deficiency payments—		
Sugar beets	2,674,000	5,668,000
Wool	1,070,000	763,000
Potatoes	695,000	2,493,000
Eggs	1,000	141,000
	4,440,000	*9,065,000*
Loss on commodity sales	—	6,000
Administration—		
Staff salaries	321,000	299,000
Other expenses	15,000	24,000
	336,000	*323,000*

	Year ended March 31	
	1970	1969
Estimated value of major services provided without charge by government departments—		
Interest on working capital	$ 4,680,000	$ 3,748,000
Part-time management and support services (Department of Agriculture)	52,000	48,000
Employee benefits	47,000	47,000
Accommodation	24,000	19,000
Accounting and postal services	17,000	16,000
	4,820,000	*3,878,000*
Loss for the year	$ 141,453,000	$ 148,119,000
Loss for the year provided for by—		
Agriculture Vote 17	$ 136,297,000	$ 143,918,000
Agriculture Vote 15	336,000	323,000
Government departments which provided major services without charge	4,820,000	3,878,000
	$ 141,453,000	$ 148,119,000

278. *Agriculture Revolving Fund.* Vote 783 of Appropriation Act No. 5, 1955, *1955, c.60,* authorized the operation of a revolving fund for the purposes of financing the production of new and improved varieties of seeds and the acquisition, maintenance and development for experimental purposes of livestock, poultry and eggs, including administrative expenses of all authorized projects. The balance of the Fund may not exceed $620,000.

The Crown's equity in the Fund at March 31, 1970 was $294,000, represented by inventories of livestock, poultry, seeds and supplies, $274,000, and accounts receivable, $29,000, less accounts payable, $9,000.

A summary of the results of operations for the past two years follows:

	Year ended March 31	
	1970	1969
Cost of experimental and development projects—		
Salaries and wages	$ 445,000	$ 399,000
Livestock and seed	366,000	323,000
Accommodation	130,000	124,000
Feed and other supplies	93,000	130,000
Administration	48,000	50,000
Interest on working capital	15,000	16,000
Miscellaneous	23,000	25,000
	1,120,000	1,067,000
Proceeds from sales of livestock, poultry and seed crops	772,000	573,000
Net cost of projects	$ 348,000	$ 494,000

	Year ended March 31	
	1970	1969
Net cost of projects provided for by—		
Department of Agriculture appropriations	$ 467,000	$ 421,000
Government departments which provided major services without charge	148,000	143,000
	615,000	564,000
Less: Amount transferred from the Revolving Fund as revenue	267,000	70,000
	$ 348,000	$ 494,000

279. *Airport operations.* The recorded capital investment of the Department of Transport in airports and associated facilities, including aircraft, aircraft spares and special equipment, as at March 31, 1970 was $787,826,000 compared with $745,185,000 at the end of the preceding year, an increase of $42,641,000.

The following is a summary of the revenue from civil aviation airport operations for the year, together with comparable figures for the preceding year:

	Year ended March 31	
	1970	1969
Aircraft landing fees—		
Trans-oceanic	$ 9,399,000	$ 8,220,000
Domestic	6,839,000	6,524,000
Trans-border	2,775,000	2,594,000
Other	19,000	27,000
	19,032,000	*17,365,000*
Rentals—		
Office and shop space	3,200,000	2,880,000
Land	1,461,000	1,000,000
Living quarters	672,000	635,000
Hangar	164,000	164,000
Other	1,089,000	1,155,000
	6,586,000	*5,834,000*
Concessions—		
Gasoline and oil	6,873,000	5,474,000
Car parking	4,135,000	2,529,000
Restaurants and snack bars	1,152,000	899,000
Car rental	1,133,000	914,000
Other	2,349,000	2,016,000
	15,642,000	*11,832,000*
Miscellaneous—		
Joint user terminal facilities charge:		
International	2,825,000	1,636,000
Domestic	1,970,000	1,284,000
Other	3,242,000	2,769,000
	8,037,000	*5,689,000*
Total revenue	49,297,000	40,720,000
Expenditure recovered from Airports Revolving Fund	1,064,000	—
Total revenue and expenditure recovered	$ 50,361,000	$ 40,720,000

The amount of $1,064,000 shown as revenue in the form of expenditure recovered from the Airports Revolving Fund represents the estimated cost of certain services supplied by the Department in respect of the Montreal and Toronto International Airports. This is not revenue but is a distribution of the Department's costs and as such is a reduction of the amount charged to the Department's Air Services appropriations. Therefore, several of the amounts appearing in the following paragraphs are $1.064,000 less than is shown in the Public Accounts.

Operating and maintenance expenditure for the year 1969-70 amounted to $41,-203,000 of which $31,732,000 was charged to the provision for "Airports and Other Ground Services – Operation and Maintenance" (included in Transport Vote 30) and $9,471,000, applicable to Montreal and Toronto International Airports, was charged to the Airports Revolving Fund, authorized by Transport Vote L160. The total expenditure of $41,203,000 was an increase of $1,239,000 over the corresponding figure of $39,964,000 for the preceding year.

Of the revenue of $49,297,000 arising from airport operations, $21,648,000 was credited to "Airports and Other Ground Services – Operation and Maintenance", $27,596,000 to the Airports Revolving Fund and $53,000 to non-tax revenue. The total revenue of $49,297,000 was $8,577,000 in excess of the corresponding figure of $40,720,000 for the preceding year.

The revenue arising from airport operations exceeded expenditure (excluding new construction) by $8,094,000 as compared with $756,000 in the preceding year. Both the revenue and expenditure for 1969-70 applicable to "Airports and Other Ground Services – Operation and Maintenance" are understated by $283,000 (see paragraph 171 of this Report), and similarly the revenue and expenditure of the Airports Revolving Fund are understated by $550,000 as a result of recording the net revenue only from parking and other operations at certain airports.

The operating results are recorded on a cash basis and do not include any provision for amortization of airport construction costs, interest on funds employed, or other costs such as a portion of the expenditure charged as air services administration, which must be taken into consideration in order to determine the full cost of civil aviation airport operations. The Department does, however, maintain accounts on an accrual basis for its operations at 17 of the major airports, which together account for 89% of the revenue from civil aviation airport operations, and prepares therefrom periodic financial statements for management purposes.

In addition, there appear on pages 24.66 and 24.67 of Volume II of the Public Accounts "Consolidated statements of operating results and investment position for 200 airports covering the fiscal years ended March 31, 1970 and March 31, 1969". These statements, which include provision for depreciation, interest on investment, administrative overhead, and employee benefits, show that the Department incurred a loss of $53,-299,000 on operations for the year, a decrease of $4,577,000 from the loss of $57,876,000 for the preceding year. The figures given in these statements for the year ended March 31, 1969 related to only 195 airports.

280. *The Board of Grain Commissioners for Canada.* This Board, consisting of a chief commissioner and two other commissioners appointed by the Governor in Council, is responsible for the administration of the Canada Grain Act, *R.S., c.25,* including the inspection, weighing, storage and transportation of grain, the fixing of tariffs, the establishment of standards and any other matter relating to the handling of grain.

The following is a comparative summary of the results of operations for the past two years:

	Year ended March 31	
	1970	1969
Expenditure—		
Salaries, allowances, etc.	$ 6,205,000	$ 6,536,000
Employee benefits	1,121,000	617,000
Accommodation	226,000	220,000
Travel	199,000	224,000
Equipment	116,000	120,000
Transportation and communications	112,000	105,000
Materials, supplies and office equipment	109,000	104,000
Other	138,000	115,000
	8,226,000	8,041,000
Revenue—		
Inspection	2,693,000	2,626,000
Weighing	1,324,000	1,293,000
Registrations and cancellations	167,000	130,000
Licences	27,000	27,000
Other	4,000	27,000
	4,215,000	4,103,000
Excess of expenditure over revenue	$ 4,011,000	$ 3,938,000
Excess of expenditure over revenue provided for by—		
Agriculture Votes 50 and 51	$ 7,033,000	$ 7,347,000
Canada Grain Act, section 4	61,000	61,000
Government departments which provided certain major services without charge	1,132,000	633,000
	8,226,000	8,041,000
Less: Revenue	4,215,000	4,103,000
	$ 4,011,000	$ 3,938,000

281. *Canada Pension Plan Account.* The Canada Pension Plan, *1964-65, c.51,* provides for a comprehensive program of contributory old age pensions and supplementary benefits for most persons in the work force in Canada, whether employees or self-employed, with the exception of those in the Province of Quebec who are covered by a parallel provincial plan.

Section 110 of the Act established the Canada Pension Plan Account within the accounts of Canada to which all contributions, interest and other amounts received under the Plan are credited and to which benefits and other payments under the Plan,

including administration costs, are charged. Section 111 of the Act established the Canada Pension Plan Investment Fund, also within the accounts of Canada, in which investments in provincial and federal securities are recorded.

The Act requires the Minister of National Health and Welfare to make an annual report to Parliament on the administration of the Act, including a statement showing amounts credited to or charged to the Canada Pension Plan Account and the Canada Pension Plan Investment Fund during the year. There is no requirement in the Act for the Auditor General to report upon this statement although such a provision would appear desirable. However, as both the Canada Pension Plan Account and the Canada Pension Plan Investment Fund form part of the accounts of Canada, they are examined by the Auditor General under the provisions of sections 67 and 69 of the Financial Administration Act. This examination includes a verification, by test, of transactions in the two accounts, a review of accounting and internal control procedures and confirmation of the investments of the Fund at the year-end.

The following is a summary of the transactions in the Canada Pension Plan Account for the past two years:

	Year ended March 31	
	1970	1969
Balance at beginning of year	$ 2,107,758,000	$ 1,352,754,000
Receipts—		
Contributions from employers and employees	745,646,000	697,626,000
Interest on investments	139,701,000	84,372,000
Interest on the operating balance	3,807,000	2,438,000
Other income	404,000	590,000
	889,558,000	785,026,000
Disbursements—		
Benefit payments:		
Retirement pensions	17,478,000	5,309,000
Widows pensions	14,304,000	3,992,000
Death benefits	8,458,000	4,227,000
Orphans benefits	7,069,000	2,037,000
Disabled widowers pensions	17,000	2,000
Disability pensions	16,000	—
Disabled contributor child benefits	4,000	—
	47,346,000	*15,567,000*
Administration expenses	17,712,000	14,455,000
	65,058,000	30,022,000
Excess of receipts over disbursements	824,500,000	755,004,000
Balance at end of year	$ 2,932,258,000	$ 2,107,758,000
This balance comprised—		
Investment Fund	$ 2,832,734,000	$ 2,022,947,000
Operating balance	99,524,000	84,811,000
	$ 2,932,258,000	$ 2,107,758,000

Transactions are recorded in the Account on a cash basis and hence no amount has been included for contributions relating to periods prior to March 31, 1970 but received after the year-end or for accrued interest of $51,793,000 on investments.

The item "Other income" comprises: $164,000 in refunds of previous years' expenditures; $165,000 received from the Quebec Pension Plan, of which $87,000 was its share of costs of registration of employees and $78,000 was its share of benefits paid to dual contributors; and $75,000 derived from electronic data processing services performed for others.

The following table shows the number of benefits in payment at the end of each of the past two years:

	March 31, 1970	March 31, 1969
Retirement pensions	114,939	58,286
Orphans benefits	23,964	8,495
Widows pensions	20,952	7,073
Disability pensions	97	—
Disabled contributor child benefits	85	—
Disabled widowers pensions	23	5
	160,060	73,859

Disability pensions and disabled contributor child benefits became payable in February 1970.

During the year 18,900 lump-sum payments of death benefits were made, compared with 9,051 in the previous year.

The following schedule shows the administration expenses charged to the Account during the year with respect to services provided to the Plan:

	Department of National Revenue (Taxation)	Department of National Health and Welfare	Department of Supply and Services	Unemployment Insurance Commission	Department of Insurance	Total
Salaries	$ 6,330,000	$ 3,804,000	$ 925,000	$ 303,000	$ 27,000	$ 11,389,000
Employee benefits	710,000	410,000	84,000	40,000	—	1,244,000
Office expense, stationery and equipment	640,000	140,000	668,000	62,000	—	1,510,000
Accommodation	630,000	519,000	86,000	42,000	—	1,277,000
Travel	653,000	289,000	6,000	—	—	948,000
Advertising	209,000	212,000	—	—	—	421,000
Other	228,000	294,000	318,000	76,000	7,000	923,000
	$ 9,400,000	$ 5,668,000	$ 2,087,000	$ 523,000	$ 34,000	$ 17,712,000

Administration expenses increased by $3,257,000, from $14,455,000 in 1968-69 to $17,712,000 in 1969-70, comprising increases of $2,282,000 for salaries and employee benefits, $416,000 for accommodation, $221,000 for office expense, stationery and equipment, $52,000 for advertising, $17,000 for travel and $269,000 for other expenses.

We have noted in previous Reports (paragraph 294 in 1969) that the Treasury Board has given to the Department of National Health and Welfare, as the Department administering the Plan, the right to review and audit all charges made to the Canada Pension Plan Account by other departments and agencies. An interdepartmental committee, which was assigned the task of reviewing the manner in which costs were being allocated to the Plan by departments and agencies and of recommending the manner in which the audit of charges should be made, recommended that the audit be made by internal audit groups of the servicing departments and agencies. Last year we reported that, pending the establishment of the departmental internal audit groups, no internal audit of charges against the Plan had been made. This situation did not change during the year but in September 1970 the Management Review Directorate of the Department of National Health and Welfare was made responsible for ensuring that a proper audit is made of all administration expenses charged to the Canada Pension Plan Account. (See Appendix 1, item 41.)

The Act restricts the investments of the Plan to securities of Canada or the provinces, or securities guaranteed by the provinces, which are not negotiable, transferable or assignable. The amount available for investment at each month-end is determined by deducting from the uninvested balance in the Account the estimated amount required to meet all payments during the following three months. This amount is allocated monthly to the various provinces in the ratio that contributions originating in each province bear to the total of all contributions. Any balance not required for the purchase of securities offered by a province is to be invested in securities of Canada. The rate of interest on securities purchased for the Investment Fund is determined, at the time of purchase, by the average market yield of outstanding negotiable bonds of Canada which are twenty years or more from maturity.

At March 31, 1970 securities of Canada and the provinces bearing interest at rates varying from 5.29% to 8.33% were held as follows:

Ontario	$ 1,586,369,000
British Columbia	410,748,000
Alberta	258,819,000
Manitoba	166,345,000
Saskatchewan	131,822,000
Nova Scotia	108,695,000
New Brunswick	82,990,000
Newfoundland	53,487,000
Prince Edward Island	10,385,000
Quebec	7,700,000
Canada	15,374,000
	$ 2,832,734,000

Judges and members of the Canadian Forces and the Royal Canadian Mounted Police employed in the Province of Quebec are excluded from participation in the Quebec Pension Plan and have been brought under the Canada Pension Plan. As their employment is in the Province of Quebec, their contributions to the Canada Pension Plan, and those of their employer, have been allocated to that Province, which accounts for the investments in securities of the Province of Quebec.

282. *Canadian Government Elevators.* The Canadian Government Elevators comprise six elevators located at Moose Jaw, Saskatoon, Calgary, Edmonton, Lethbridge and Prince Rupert, which are operated by the Board of Grain Commissioners for Canada under authority of section 166 of the Canada Grain Act, *R.S., c.25,* and Order in Council P.C. 1372 of August 19, 1925.

The Crown's equity in the Elevators at March 31, 1970 was $14,845,000 represented by fixed assets, $14,009,000, and working capital, $836,000.

The following is a summary of the results of operations for the past two years:

	Year ended March 31	
	1970	1969
Income—		
Storage	$ 1,169,000	$ 1,138,000
Elevation	802,000	650,000
Drying	505,000	379,000
Screenings and surplus grain, less purchases $56,000 ($40,000 in 1968–69)	229,000	110,000
Cleaning	104,000	84,000
Other	47,000	48,000
	2,856,000	2,409,000
Expense—		
Salaries and wages	1,274,000	1,430,000
Employee benefits	246,000	133,000
Grants in lieu of taxes	412,000	377,000
Heat, light, power and water	173,000	143,000
Head office	115,000	93,000
Building and equipment repairs and maintenance	97,000	138,000
Materials and supplies	65,000	72,000
Other	40,000	48,000
	2,422,000	2,434,000
Operating profit (loss) without provision for depreciation	$ 434,000	$ (25,000)
Operating profit (loss) disposed of as follows—		
Income transferred or to be transferred to the Receiver General	$ 2,912,000	$ 2,449,000
Expense charged to—		
Agriculture Vote 50	2,246,000	2,349,000
Less: Stores acquired for inventories	16,000	11,000
	2,230,000	2,338,000
Appropriations of departments which provided certain services without charge	248,000	136,000
	2,478,000	2,474,000
	$ 434,000	$ (25,000)

The increase in income of $447,000 resulted from large quantities of damp grain harvested in 1968 being directed to the various elevators for drying, and from improve-

ment in exports during 1969-70 resulting in increased elevation and screenings revenue. Receipts of grain increased from 17.7 million bushels in 1968-69 to 22.2 million bushels in 1969-70.

A loss of $100,000 by the Lethbridge elevator was the twenty-fifth consecutive annual loss, the accumulated losses totalling $1,336,000.

283. *Canadian Government Printing Bureau.* The Printing Bureau, which is part of the Department of Supply and Services, operates the printing plant in Hull, Que., and small printing units across Canada. Its operations are financed by means of a revolving fund established by Vote L104b, Appropriation Act No. 1, 1969, *1968-69, c.23.* The balance of the fund may not exceed $7 million.

The Crown's equity in the Canadian Government Printing Bureau Revolving Fund at March 31, 1970 was $1,257,000 represented by inventories of work in process and printing metals and supplies of $1,774,000, offset by commercial accounts payable and accrued wages of $517,000. Equipment with a cost value of $7,587,000 was not included on the balance sheet of the Bureau at March 31, 1970.

The following is a summary of the results of operations for the past two years:

	Year ended March 31	
	1970	1969
Sales	$ 20,916,000	$ 16,962,000
Cost of sales	18,081,000	16,149,000
Equipment purchases	556,000	538,000
Administrative expense	1,446,000	1,211,000
	20,083,000	17,898,000
Adjustments for revaluation of inventory of printing metals	386,000	—
	19,697,000	17,898,000
Profit (loss) for the year	$ 1,219,000	$ (936,000)

The increase of $3,954,000 in sales was due to an increase in the volume of printing and to higher prices.

Operating costs do not include the value of accommodation and other services provided without charge by government departments or depreciation on equipment previously acquired from parliamentary appropriations and still in use. However, the full cost of equipment purchased during the year, $556,000, has been included. (See paragraph 52 of this Report.)

Although the remuneration of salaried and hourly-rate employees is ordinarily charged to the Fund, $155,000 paid to certain salaried employees in the year was charged to the Treasury Board reserve for salary revisions.

The adjustments for revaluation of the inventory of printing metals are with respect to used monotype and linotype metals and matrices, $267,000, and with respect to unused matrices, $119,000. The former had previously been valued at cost less depreciation of from 33⅓% to 100% but are now valued at cost less an allowance for usage. The latter had previously been valued at standard cost but are now valued at actual cost.

284. *Canadian Government Supply Service.* This Service, a branch of the Department of Supply and Services, is financed by a revolving fund established on April 1, 1966 by Vote L18e, Appropriation Act No. 4, 1966, *1966-67, c.6,* for the purpose of acquiring and managing stores; for manufacturing, producing, processing or dealing in stores or materials; for the purchase and supply of repair services for office furniture and equipment; and for freight services. The purposes of the revolving fund were extended by Vote L13g, Appropriation Act No. 2, 1967, *1966-67, c.85,* and Vote L22a, Appropriation Act No. 7, 1967, *1967-68, c.8,* to include the procurement of insurance coverage at bulk rates on the movement of household effects and the financing of the travel accounts rendered by carriers for services arranged by the Central Travel Service. The amount that may be outstanding at any time against the fund was increased to $20 million by Vote L147b, Appropriation Act No. 1, 1970, *1969-70, c.24.*

The Crown's equity in the Canadian Government Supply Service Revolving Fund at March 31, 1970 was $2,815,000 represented by inventories, $5,044,000, freight and other claims, $34,000, and motor vehicles, $3,000, offset by accounts payable to commercial suppliers of $2,266,000.

The following is a summary of the results of operations for the past two years:

	Year ended March 31	
	1970	1969
Services to government departments and agencies—at cost	$ 10,490,000	$ 4,243,000
Supply operations for government departments and agencies—		
Sales	$ 12,372,000	$ 11,045,000
Cost of sales	11,309,000	9,726,000
Profit	1,063,000	1,319,000
Office equipment and furniture repair services for government departments and agencies—		
Service fees and charges	1,526,000	79,000
Cost of services	1,527,000	79,000
Loss	1,000	—
Net profit transferred from the revolving fund as revenue	$ 1,062,000	$ 1,319,000

The increase of $6,247,000 in services rendered to government departments and agencies was due to the increased participation by departments and agencies in the central travel and freight services arrangements.

The cost of services rendered and the cost of the supply operations do not include administrative expense, depreciation of equipment and the value of accommodation and other services provided without charge by government departments, estimated at $4,000,000.

The cost of the office equipment and furniture repair services, which was recovered from customer departments and agencies on a service fee basis, includes the direct cost of providing these services as well as depreciation of motor vehicles purchased out of the revolving fund. In prior years the direct costs were provided for by parliamentary appropriations and no fees were charged.

285. *Computer Services Bureau.* This Bureau, formerly called the Central Data Processing Service Bureau, provides data processing and related services to departments and agencies. It is financed by means of a working capital advance account which was authorized by Vote L99e, Appropriation Act No. 4, 1966, *1966-67, c.6.* The amount outstanding at any time is not to exceed $2 million.

The Crown's equity in the Bureau at March 31, 1970 was $87,000, comprising advances of $786,000 and an accumulated deficit of $699,000. (See paragraph 220 of this Report.)

A summary of the results of operations for the past two years follows:

	Year ended March 31	
	1970	1969
Income—		
Fees and rental—Bureau computer	$ 1,867,000	$ 1,941,000
Fees and rental—Outside computers	3,391,000	3,392,000
Programming services	264,000	212,000
Sale of tapes	35,000	59,000
	5,557,000	5,604,000
Expense—		
Rental of Bureau computer	1,046,000	1,448,000
Rental of Outside computers	3,347,000	3,329,000
Salaries and employee benefits	937,000	734,000
Materials and supplies	112,000	121,000
Accommodation	83,000	110,000
Professional services	59,000	103,000
Other	147,000	152,000
	5,731,000	5,997,000
Loss for the year	$ 174,000	$ 393,000

Funds to reimburse the Bureau for the deficiency in its working capital advance accounts have been provided by Supply and Services Vote 10a of Appropriation Act No. 4, 1970, *1970-71, c.4.*

286. *Defence Production Revolving Fund.* Section 16 of the Defence Production Act, *R.S., c.62,* established the Defence Production Revolving Fund for the purpose of acquiring, storing, maintaining and transporting stocks of materials or defence supplies, and providing working capital loans and advances to persons engaged in defence work. The balance of the Fund may not exceed $100 million, a limit which has not been approached in recent years.

The Crown's equity in the Fund at March 31, 1970 was $27,496,000 comprising advances of $27,600,000 and a deficit of $104,000. The assets of the Fund included loans of $3,821,000 to manufacturers to assist them in the acquisition of capital equipment. These loans which were made contrary to section 16(2)(c) of the Defence Production Act are commented on in paragraph 164 of this Report.

The Fund's operations for the past two years are summarized as follows:

	Year ended March 31	
	1970	1969
Interest income	$ 869,000	$ 715,000
Loss (profit) on disposal of strategic materials	104,000	(77,000)
Net income before inventory adjustments	765,000	792,000
Inventory adjustments:		
Decline in value—		
Quartz	5,000,000	—
Cobalt	632,000	—
Hexachlorethane	—	31,000
Shortage—cobalt	71,000	—
	5,703,000	31,000
Net loss (profit) for the year	$ 4,938,000	$ (761,000)
Funds provided by Supply and Services Vote 6b (7b in 1969)	$ 5,703,000	$ 31,000
Less: Amount transferred from the Revolving Fund as revenue	869,000	792,000
	4,834,000	*(761,000)*
Portion of net loss not provided for, to be recovered from future parliamentary appropriation	104,000	—
	$ 4,938,000	$ (761,000)

287. *Fisheries Prices Support Board.* This Board, consisting of not more than six members appointed by the Governor in Council, was established under the Fisheries Prices Support Act, *R.S., c.120.* The Board is responsible for investigating and, where appropriate, recommending action to support the prices of fisheries products, in an endeavour to secure a fair relationship between the returns from fisheries and those from other occupations. Support measures take the form of the purchase of a fisheries product by the Board at a prescribed price or the payment to a producer of the difference between a prescribed price and a lower average price at which a product is sold during a specified period. The Act requires that an account called the Fisheries Prices Support Account be maintained to which shall be charged all expenditure other than administrative costs,

which are met out of moneys appropriated by Parliament for the purpose, and to which shall be credited the proceeds of sales of fisheries products. The Act also provides that the net operating profit in each fiscal year shall be deposited in the Consolidated Revenue Fund as revenue, and that the net operating loss in any fiscal year may be recouped from moneys appropriated by Parliament for the purpose. There was no balance in the Account at March 31, 1970.

A summary of the results of operations for the past two years follows:

	Year ended March 31	
	1970	1969
Trading operations—		
Sales	$ 5,178,000	$ 997,000
Cost of sales	5,192,000	2,558,000
Loss on trading operations	14,000	1,561,000

—by commodities, 1969-70—

	Sales	Cost of sales	Loss
Dried salted cod	$ 100	$ 11,400	$ 11,300
Canned mackerel	137,900	140,600	2,700
Lake Erie yellow perch	731,000	731,000	—
Frozen groundfish	4,309,000	4,309,000	—
	$ 5,178,000	$ 5,192,000	$ 14,000

	1970	1969
Deficiency payments—		
Salted cod	1,073,000	—
Groundfish	—	4,189,000
Loss for the year	$ 1,087,000	$ 5,750,000
Loss for the year provided for by—		
Fisheries and Forestry Vote 15b	$ 1,087,000	$ —
Fisheries and Forestry Vote 18b of 1968-69	—	5,750,000
	$ 1,087,000	$ 5,750,000

288. *National Film Board.* This Board was established in 1939 by the National Film Act, *R.S., c.185,* to initiate and promote the production and distribution of films in the national interest. The Act also established the National Film Board Operating Account in the Consolidated Revenue Fund. With the exception of expenditure on equipment acquired for its own use, which has been charged to Secretary of State Vote 60, all expenditures of the Board are charged to the Account, including the cost of capital equipment acquired for the Canadian Government Photo Centre in Ottawa, as authorized by Vote L30, Appropriation Act No. 5, 1963, *1963, c.42,* (see also paragraph 220 of this Report). The Account is credited with all moneys received from operations of the Board, including the sale and rental of films and other visual materials; amounts provided by Secretary of State Vote 55, "Administration, Production and Distribution of Films and Other Visual Materials"; and amounts transferred from appropriations of other government departments in respect of work undertaken for them.

The equity of the Crown in the Board at March 31, 1970 was $4,722,000 comprising capital equipment with a net book value of $2,661,000, including $142,000 for equipment of the Canadian Government Photo Centre, and working capital of $2,061,000.

The following is a summary of expense and income for the past two years:

	Year ended March 31	
	1970	1969
Expense—		
Production of films and other visual materials for:		
National Film Board	$ 5,132,000	$ 5,658,000
Government departments and others	4,219,000	3,443,000
Distribution of films	4,191,000	3,908,000
Estimated value of major services provided without charge by government departments	2,962,000	2,256,000
Administration and general services	1,956,000	1,561,000
Provision for retroactive salary and wage increases	—	1,039,000
Depreciation on equipment	348,000	312,000
Fire loss replacement costs	—	19,000
	18,808,000	18,196,000
Income—		
Sale of films and other visual materials	4,577,000	3,965,000
Rentals and royalties	906,000	1,086,000
Miscellaneous	82,000	69,000
Canadian Government Photo Centre—excess of income over expense	59,000	23,000
	5,624,000	5,143,000
Net expense	$ 13,184,000	$ 13,053,000
Net expense provided for by—		
Secretary of State Vote 55	$ 9,426,000	$ 9,426,000
Treasury Board Vote 5	465,000	—
Treasury Board—reserve for salary revisions	—	1,069,000
	9,891,000	10,495,000
Less: Amount refundable	17,000	10,000
	9,874,000	10,485,000
Government departments which provided major services without charge	2,962,000	2,256,000
Depreciation	348,000	312,000
	$ 13,184,000	$ 13,053,000

Expense for the year increased by $612,000, the most significant increase being $706,000 for the estimated value of major services provided without charge by government departments, including $621,000 for contributions to the Public Service Superannuation Account and to the Canada and Quebec Pension Plans. There was also an increase of $117,000 for services provided by other film producers. Fees paid to performers, musicians, etc., decreased by $431,000.

Personnel on strength during the year decreased by 120 from 1,107 at the previous year-end to 987 at March 31, 1970.

The increase of $481,000 in income resulted mainly from an increase of $612,000 in the sale of films and other visual materials, comprising $430,000 to the public and $182,000 to government departments and agencies, offset by a decrease of $180,000 in royalties received from CBC English production.

289. *Passport Office.* Vote L22b of Appropriation Act No. 1, 1969, *1968-69, c.23,* authorized a revolving fund for the purpose of operating the central and regional Passport Offices. The vote wording provides that "the amount outstanding at any one time under this authority [is] not to exceed $100,000."

The Crown's equity in the Passport Office Revolving Fund at March 31, 1970 was $243,000 represented by equipment, furniture and leasehold improvements, $234,000, and working capital, $9,000.

The following is a summary of the results of operations for the year ended March 31, 1970:

Income—	
Fees earned	$ 4,403,000
Expense—	
Salaries and employee benefits	1,579,000
Passport materials and application forms	310,000
Postal services and postage	214,000
Passport operations at posts abroad	163,000
Accommodation	128,000
Professional and special services	98,000
Telephones and telegrams	88,000
Travel and removal	56,000
Office stationery and supplies	55,000
Information	34,000
Repairs and replacements of office furniture and equipment	26,000
Provision for replacement of fixed assets	20,000
Other	4,000
	2,775,000
Reduction in inventory of passports in process	66,000
	2,841,000
Operating income	1,562,000
Less: Amount retained for acquisition of fixed assets	166,000
Net income for the year transferred from the revolving fund as revenue	$ 1,396,000

Vote L22b of Appropriation Act No. 1, 1969 provides that the revolving fund is to be credited with "such portion as may be determined by the Treasury Board of the revenue derived from passport services". The Treasury Board has not formally determined the portion of the revenue to be credited to the revolving fund but in 1969-70 the entire revenue from the passport services was credited thereto.

290. *Post Office.* The Post Office operates under the authority of the Post Office Act, *R.S., c.212,* which provides that the Postmaster General shall administer, superintend and manage the Canada Post Office.

The following is a summary of the results of operations for the past two years as recorded by the Post Office in the Public Accounts:

	Year ended March 31	
	1970	1969
Gross postal revenue	$ 430,378,000	$ 363,339,000
Less: Expenses paid from revenue	52,232,000	52,714,000
Revenue from financial and miscellaneous services credited to expenditure	23,393,000	22,184,000
	75,625,000	*74,898,000*
Net postal revenue	354,753,000	288,441,000
Other revenue—		
Miscellaneous	263,000	148,000
Estimated:		
Value of mail and other services provided without charge to other government departments	10,225,000	8,531,000
Interest on Money Order Account	2,842,000	2,127,000
Interest on funds in Savings Bank Account	362,000	757,000
	13,692,000	*11,563,000*
	368,445,000	300,004,000
Expenditure from parliamentary appropriations—		
Operations	253,503,000	243,032,000
Transportation	97,431,000	88,984,000
Administration, financial services, etc.	12,975,000	9,696,000
Interest on Savings Bank accounts—Department of Finance	103,000	340,000
	364,012,000	342,052,000
Less: Revenue from financial and miscellaneous services credited to expenditure	23,393,000	22,184,000
	340,619,000	319,868,000
Estimated value of major services provided without charge by other government departments—		
Accommodation	36,738,000	35,364,000
Contributions to:		
Public Service Superannuation Account	28,876,000	26,159,000
Canada Pension Plan and Quebec Pension Plan	4,366,000	3,790,000
Employee group surgical-medical insurance	1,297,000	1,858,000
Accounting and cheque issue services	765,000	750,000
Employee compensation	433,000	402,000
	72,475,000	*68,323,000*
Provision for retroactive salary increase for 1969-70	8,298,000	—
	421,392,000	388,191,000
Net operating deficit	$ 52,947,000	$ 88,187,000

The $67 million increase in gross postal revenue was due mainly to postage rate increases effective November 1, 1968, which were applicable to the full year 1969-70.

The $21 million increase in expenditure from parliamentary appropriations was due mainly to increases of $11 million in salary and allowance costs and $8.5 million in costs of mail conveyance. The amount of $23,393,000 deducted from the total expenditure from parliamentary appropriations is the revenue received from financial and miscellaneous services during the year which was spent under authority of Communications Vote 15, Appropriation Act No. 3, 1969, *1968-69, c.36*. This category of revenue amounted to $22,184,000 in the previous year and in order to make the previous year's figures comparable, this amount is shown as a deduction from gross postal revenue in that year and also as a deduction from expenditure from parliamentary appropriations. Included in the 1969-70 expenditure was $438,000 for the hiring of extra trucks and drivers and security guards necessitated by the disruption of mail services in Montreal in the early part of 1970 and the damage done through violence to vehicles and property. Subsequent to the year-end additional costs of $555,000 have been incurred for security guards.

In summarizing its operations the Post Office includes the following items as revenue:

Interest on Money Order Account at 7%	$ 2,842,000
Interest on funds in Savings Bank Account at 7%	362,000
	3,204,000
Less: Interest paid on Savings Bank accounts at 2½% (terminated December 31, 1969)	103,000
Additional revenue recorded (net)	$ 3,101,000

Interest paid on Savings Bank accounts was recorded as an expenditure of the Department of Finance and that Department benefits, through lower interest costs, from the large balances in the Money Order Account and Savings Bank Account.

As stated in previous Reports (paragraph 302 in 1969), it is improper for a department to take unilateral action in such circumstances, and if the Post Office is to receive credit for the value of the balances held in these two Accounts, the Department of Finance must give recognition to these additional costs.

Paragraphs 134 to 138 in the "Comments on Expenditure and Revenue Transactions" section of this Report deal with several matters noted in the course of our examination of the Post Office.

291. *Supply and Services – publishing activities.* On April 1, 1969 the Public Printing and Stationery Act, *R.S., c.226,* was repealed and the printing and publishing functions formerly carried out under that Act were assigned to the Department of Supply and Services by the Government Organization Act, 1969, *1968-69, c.28*. These functions included the printing of the *Canada Gazette,* the *Statutes of Canada* and other government publications, the procurement of print for books and publications, and the distribution of parliamentary, departmental and other publications. On April 1, 1970,

certain publishing and distribution functions were assigned to Information Canada. The comments that follow refer to the publishing activities as they were carried out by the Department of Supply and Services during the fiscal year ended March 31, 1970.

A summary of expenditure and revenue for the year together with comparable figures for the previous year follows:

	Year ended March 31	
	1970	1969
Expenditure—		
Administration, publishing and distribution	$ 2,106,000	$ 1,896,000
Printing and binding of publications for:		
Sale	1,652,000	1,757,000
Free distribution	216,000	140,000
	1,868,000	*1,897,000*
	3,974,000	3,793,000
Revenue—		
Sales of documents and publications	2,732,000	2,500,000
Royalties	65,000	22,000
Art work for other departments	35,000	41,000
	2,832,000	2,563,000
Excess of expenditure over revenue	$ 1,142,000	$ 1,230,000
Excess of expenditure over revenue provided for by—		
Supply and Services Vote 20	$ 3,974,000	$ 3,793,000
Less: Sales proceeds credited to revenue	2,832,000	2,563,000
	$ 1,142,000	$ 1,230,000

The summary does not include the cost of major services provided without charge by other government departments as no estimate of the cost of such services for the publishing activities was made by the Department for 1969-70. In 1968-69 the value of these services was estimated at $1,756,000.

Expenditure for the year was $181,000 or 5% more than in the previous year while revenue increased by $269,000 or 10%.

The sales operation is handled by a mail order office in Hull, Que., six bookshops, located in the larger Canadian cities, and a bulk publications stores warehouse located in Hull which supplies the sales outlets. As at April 1, 1970 the sales operation became the responsibility of Information Canada.

Sales of publications during the year totalled $2,732,000 and the cost of printing publications for sale amounted to $1,652,000. Because the inventory records are not

complete, it is not possible to relate cost of sales to sales. In previous years (paragraph 303 of our 1969 Report) we have reported the lack of adequate control over stocks of publications held for sale. This condition continues to exist.

Over the years a number of studies have been made of the printing and publishing activities of the Government, the most recent being completed during 1969-70. In its June 1970 report the Bureau of Management Consulting Services of the Department of Supply and Services found fault with the several inventory reporting systems and recommended that these be developed to give total physical and financial control of the inventory.

The inventory was substantially reduced during the year by scrapping obsolete and excess stocks of publications having a retail value of $2.5 million. Some examples are given in paragraph 168 of this Report.

Vote L33a, Appropriation Act No. 10, 1964, *1964-65, c.34,* as amended by Vote L146b, Appropriation Act No. 1, 1970, *1969-70, c.24,* established a revolving fund for the purpose of paying for print purchased from commercial printers. The revolving fund may not exceed $1 million. Disbursements for print purchases totalled $4,401,000 during the year and these were billed to the customer departments. The balance of the fund at March 31, 1970 was $182,000 representing amounts owing by departments and agencies.

The cost of providing publishing and distribution services for government departments and agencies was not recovered.

292. *Unemployment Insurance Fund.* The Unemployment Insurance Act, *1955, c.50,* (superseding *1940, c.44*), which provides for insurance against unemployment, is administered by the Unemployment Insurance Commission consisting of three commissioners appointed by the Governor in Council.

The Act established the Unemployment Insurance Fund as a special account in the Consolidated Revenue Fund to which all contributions from insured employees and their employers, and the Federal Government contributions equivalent to one-fifth of the total employer-employee contributions, together with interest on investments, are credited, and to which benefit payments are charged.

Financial statements showing the operations of the Fund during the fiscal year and the state of the Fund at the end of the year are prepared annually by the Commission. In previous Reports attention was drawn to the fact that the Act does not require that these financial statements be audited. The Public Accounts Committee has made reference to this in a number of its reports, the last being in its Fourteenth Report 1966-67 (see Appendix 1, item 3), recommending that these statements be required by statute to be prepared by the Commission and reported upon by the Auditor General. Although the Act has not yet been amended in this respect, the Commission submits its financial statements to the Audit Office for examination, and the statements for the year ended March 31, 1970, together with our report thereon to the Minister of Labour, are reproduced in the Public Accounts, Volume II, pages 12.13 to 12.16.

The following is a summary of transactions for the past two years, together with the year-end balances at the credit of the Fund:

	Year ended March 31	
	1970	1969
Receipts—		
Contributions from employers and employees	$ 491,783,000	$ 433,130,000
Contributions from Canada	98,357,000	86,626,000
Income from investments	27,556,000	18,850,000
Penalties	164,000	171,000
	617,860,000	538,777,000
Disbursements—		
Benefit payments	542,058,000	459,089,000
Excess of receipts over disbursements	75,802,000	79,688,000
Balance at beginning of year	382,340,000	302,652,000
Balance at end of year	$ 458,142,000	$ 382,340,000

Disbursements from the Fund do not include the administration expense of the Commission which amounted to $54,921,000 in 1969-70 compared with $47,514,000 for the preceding year, an increase of $7,407,000. This expense was met to the extent of $44,021,000 ($38,809,000 for 1968-69) from funds provided by Labour Vote 10 in accordance with section 10 of the Act and to the extent of $10,900,000 ($8,705,000 for 1968-69) by government departments which provided accommodation for the Commission's offices throughout Canada, contributions to the Public Service Superannuation Account and Canada and Quebec Pension Plans and accounting and other services, without charge.

The increase of $7,407,000 in administration expense for the year was accounted for mainly by increases in salaries, wages and allowances, $4,754,000, and in statutory contributions to the Public Service Superannuation Account, $2,136,000. Accounting for the increase in salaries, wages and allowances were higher salary rates in effect during the year and more extensive engagement of casual employees, offset in part by the reduction in the number of regular employees on strength from 4,478 at March 31, 1969 to 4,304 at March 31, 1970. The increase in contributions to the Public Service Superannuation Account is attributable in part to the salary increases but, in the main, to the amortization of actuarial deficiencies arising out of salary revisions. An increase of $609,000 in expenses for office stationery, supplies and equipment included $105,000 as the first full-year cost of renting a computer system, installed in February 1969 for processing benefit payments in the Quebec region, and $56,000 for similar equipment placed in the Ontario regional office in August 1969. Travelling and removal expenses increased by $286,000 attributable in part to the move of the Ontario regional office from Toronto to Belleville. The commission on unemployment insurance stamp sales paid to the Post Office was lower this year by $469,000 due to the accelerated phase-out of the making of contributions by the stamp-purchase method.

In 1969-70 the Fund's excess of receipts over disbursements was $75,802,000 compared with $79,688,000 in 1968-69. A 13% increase in contribution receipts, from $519,-756,000 in 1968-69 to $590,140,000 in 1969-70, was due mainly to higher contribution scales, introduced by amendments to the Unemployment Insurance Act effective June 30, 1968, being operative for a full year. The amendments also provided for substantially increased rates of benefit at upper levels of insurable earnings, the maximum weekly rate now being $53 compared with $36 previously. As a result there was an 18% increase in total benefit payments this year, from $459,089,000 in 1968-69 to $542,058,000 in 1969-70, and a further substantial increase in the average weekly benefit rate paid. There was also a small increase in the number of claims allowed, but the percentage of the insured population drawing benefits and the average duration of claims was slightly lower. Comparisons follow:

	Year ended March 31	
	1970	1969
Average weekly benefit rate paid	$ 33.36	$ 28.33
Number of initial benefit claims allowed	1,185,979	1,166,568
Average monthly percentage of the insured population drawing benefits	5.6%	5.9%
Average number of benefit weeks paid	14.7	14.8

In keeping with past practice, we reported to the Chief Commissioner on each of the examinations of field offices made during the year. Our examinations are designed primarily to test the adequacy of internal control over contributions, other income, benefit payments and the collection of overdue contributions, penalties and benefit overpayments. The extent to which adjudication of claims complies with the provisions of the Act and regulations is also tested. Prompt attention was given to all audit observations and corrective action was taken where required. In appraising the validity of benefit awards, no attempt is made by the Audit Office to verify the accuracy or completeness of information regarding claimants contained in the records of the Commission beyond questioning apparent deficiencies in these records. This aspect of the verification of claims is carried out by the Commission's own investigation-enforcement staff. Also, no attempt is made by this Office to audit the accounts of employers to see that employer-employee contributions are fully made to the Unemployment Insurance Fund and that each worker is credited with the proper contributions. These records are verified by the Commission's revenue control branch.

In last year's Report (paragraph 94) reference was made to the inadequacy of the liaison disclosed in our review of the procedures in effect between field offices of the Commission and the Canada Manpower Centres. This subject is further dealt with in paragraph 79 of this Report.

Special Audits and Examinations

293. In addition to the examinations of the accounts of the departments and agency and proprietary Crown corporations referred to in this Report, the following special audits and examinations were made by the Audit Office during the year, most of them in accordance with specific directions contained in various statutes:

- The Army Benevolent Fund Board
- The Board of Trustees of the Queen Elizabeth II Canadian Fund to Aid in Research on the Diseases of Children
- The Canada Council
- The Custodian
- Economic Council of Canada
- Exchange Fund Account
- Government of the Northwest Territories
- Government of the Yukon Territory
- Medical Research Council
- National Arts Centre Corporation
- National Museums of Canada
- Roosevelt Campobello International Park Commission
- Royal Canadian Mint stocks
- Royal Canadian Mounted Police (Dependants) Pension Fund
- Science Council of Canada

294. *The Army Benevolent Fund Board.* This Board was constituted by the Army Benevolent Fund Act, *R.S., c.10,* and consists of five members appointed by the Governor in Council. The Act provides for a special account in the Consolidated Revenue Fund called the Army Benevolent Fund to which certain moneys were credited and from which there shall be paid

> to or for the benefit of [World War II] veterans or their dependants or the widows or children or former dependants of deceased veterans such amounts as the Board may from time to time determine

together with the expenses incurred in carrying out the provisions of the Act.

The Act directs that the Board be governed by the following principles:

(a) plans shall be formulated on the assumption that there will be prospective beneficiaries for fifty years from the establishment of the Fund [in 1947];

(b) no grant is to be made by way of relief from the Fund where adequate relief is, at the time of the application, available from federal, provincial or municipal governmental sources;

(c) where grants are made to assist in the education of dependants of veterans or of children of deceased veterans, bursaries shall be granted contingent on continued need and satisfactory progress and not as competitive scholarships based on academic standing; and

(d) amounts paid out of the Fund are not recoverable unless obtained by fraud or misrepresentation.

The accounts of the Board were examined for the year ended March 31, 1970 pursuant to section 11 of the Act and our report was submitted to the Chairman and members of the Board with a copy being provided to the Minister of Veterans Affairs.

Receipts amounted to $215,000 of which $203,000 was derived from interest on deposits with the Receiver General and $12,000 from interest on Canada bonds. Disbursements totalled $482,000 consisting of $375,000 in grants to or on behalf of World War II veterans and $107,000 for administrative and case-work expense. The latter was a net amount after deducting a fee of $48,000 for management of the financial program of the Canadian Army Welfare Fund and a grant of $18,000 from the Department of Veterans Affairs to assist in defraying administrative expenses.

After absorbing the excess of disbursements over receipts amounting to $267,000, the balance of the Fund was $4,462,000 at March 31, 1970 of which $4,200,000 was on deposit with the Receiver General, $256,000 was invested in Canada bonds and $6,000 was represented by accountable advances and prepaid expense.

295. *The Board of Trustees of the Queen Elizabeth II Canadian Fund to Aid in Research on the Diseases of Children.* The Queen Elizabeth II Canadian Research Fund Act, *1959, c.33,* established this Board and the Fund to assist individuals or organizations to undertake or carry on research into the diseases of children and the causes, prevention and treatment of such diseases. The Board consists of a chairman and six members and its headquarters is in Ottawa. The Government Organization Act, 1969, *1968-69, c.28,* stipulates that from April 1, 1969 secretarial and other administrative and technical services and facilities required by the Board are to be provided by the Medical Research Council. However, as in previous years, these services were provided by the National Research Council of Canada.

As required by section 14 of the Act, we have audited the accounts and financial transactions of the Board for the year ended March 31, 1970 and have reported thereon to the Board and to the Prime Minister.

The Act provided $1 million for the Fund and permits the Board to accept gifts for its purposes. The following is a summary of the Board's transactions for the year, together with comparable figures for the preceding year:

	Year ended March 31	
	1970	1969
Principal of Fund at beginning of year	$ 955,000	$ 1,033,000
Earnings on investments	62,000	63,000
	1,017,000	1,096,000
Awards approved during year	125,000	134,000
Conference on paediatric research	—	7,000
	125,000	141,000
Less: Cancellation of awards approved in prior years	21,000	—
	104,000	141,000
Principal of Fund at end of year	$ 913,000	$ 955,000

Two categories of awards have been established by the Board of Trustees, namely "Queen Elizabeth II Fellowships" and "Queen Elizabeth II Scientists". Awards in the first category are made to doctors of medicine or "other suitable fields of science" to enable them to obtain advanced training and experience in research related to diseases of children. The value of a fellowship ranges from \$4,800 to \$9,000 per annum, depending upon qualifications, plus a travel grant and children's allowances where applicable. Also, a research allowance of \$500 is awarded to the supervisor of each fellow. Four new fellowships totalling \$31,000 were awarded during the year of which \$27,000 remains to be paid at March 31, 1970. In addition, travel grants, children's allowances and research allowances totalling \$4,000, relating to fellowships, were approved and paid during the year.

Awards in the second category cover the salaries of scientists appointed to carry out research at universities or teaching hospitals. Regulations approved by the Board of Trustees with regard to these appointments provide for payments of \$10,000 or more per annum, depending upon qualifications, for the first three years and \$5,000 per annum for the next three years, after which the institution at which the appointment is held is expected to maintain the salary of the appointee at an appropriate level without further recourse to the Board. Two such appointments were made during the year for which \$90,000 was provided in the Board's accounts.

The Board continues to support five scientist appointees of prior years, and the outstanding liability of \$100,000 in this connection, plus the outstanding liability of \$3,000 for three fellowships awarded in the preceding year, was included in the total provision of \$220,000 for awards approved, appearing on the balance sheet of the Board at March 31, 1970.

296. *The Canada Council.* The Council was established by the Canada Council Act, *1957, c.3,* to foster and promote the study and enjoyment of, and the production of works in, the arts, humanities and social sciences.

As required by section 22 of the Act, we have audited the accounts and financial transactions of the Council for the year ended March 31, 1970 and have reported thereon to the Council and to the Secretary of State.

The financial statements of the Council are not reproduced in the Public Accounts as are the statements of Crown corporations and other operating activities. If financial information additional to the following is required, reference should be made to the annual report of the Council.

An Endowment Fund of \$50 million was established under the Act. The income earned on the investments of the Fund together with grants from Canada is used to meet administration expense and other expenditure for purposes of the Act (except for capital assistance grants to universities which are made from the University Capital Grants Fund). Permissible expenditures under section 8 of the Act include, in respect of the arts, humanities and social sciences: grants, scholarships and awards; sponsorship of exhibitions, performances and publications; exchanges with other countries and organiza-

tions or persons therein of knowledge and information; representation and interpretation of Canadian arts, humanities and social sciences in other countries; and liaison with the United Nations Educational, Scientific and Cultural Organization.

During the year the Council received from Canada an unconditional grant of $23,700,000 for the general purposes set out in section 8 of the Act. This amount is accounted for within the Endowment Account in accordance with a decision of the Council.

The transactions of the Endowment Account for the year, with the comparable figures for the preceding year, are summarized as follows:

	Year ended March 31	
	1970	1969
Surplus at beginning of year	$ 481,000	$ 1,350,000
Income—		
Grant from Canada	23,700,000	20,580,000
Interest and dividends earned	4,975,000	4,153,000
Cancelled grants and refunds	815,000	387,000
	29,490,000	*25,120,000*
	29,971,000	26,470,000
Expenditure—		
Grants	26,852,000	24,532,000
Canadian National Commission for UNESCO	200,000	231,000
Administration expense, less recoveries	1,452,000	1,226,000
	28,504,000	25,989,000
Surplus at end of year	$ 1,467,000	$ 481,000

A University Capital Grants Fund of $50 million was established by the Act from which grants were made to universities and similar institutions of higher learning by way of capital assistance for building construction projects intended for use in furthering the arts, humanities and social sciences. These grants were paid out of the principal and accumulated income of the Fund.

During the year the Council allocated and authorized as grants to qualifying institutions the amount of $171,000 which represented the year's interest and profits earned by the University Capital Grants Fund. This brought to $68,517,000 the amount allocated and authorized as grants to March 31, 1970. Of this amount, the Council has paid out $66,505,000 of which $1,029,000 was paid during the year, leaving an unpaid balance of $2,012,000 at the end of the year.

In our 1969 Report (paragraph 310) reference was again made to the method employed in the allocation of the interest and profits, to the qualification of our reports to the Council and the Secretary of State, and to the Sixth Report 1964-65 of the Public Accounts Committee wherein it was recommended that steps be taken to seek amending legislation to provide clear authority for the Council to use the 1956 census and the "hotch-pot" approach in the distribution of interest and profits in respect of the University Capital Grants Fund. As no action had been taken, the Public Accounts Committee in its Third Report 1966-67 reiterated its previous recommendation and requested the Council to formally ask the Government to give consideration to the required amending legislation with the objective of having it considered by Parliament prior to the final closing out of the University Capital Grants Fund (see Appendix 1, item 9).

In August 1967 we were informed by the Acting Under Secretary of State that amending legislation to implement the recommendation of the Public Accounts Committee was being prepared by the Department of Justice. In September 1968 we were informed by the Minister of Justice that detailed drafting instructions had not been received by his Department from the Department of the Secretary of State in time for amending legislation to be ready for the 1967-68 session of Parliament, and that since the end of that session priorities in drafting legislation by the Department of Justice had to be given to urgent and important items. In June 1969 and July 1970 we were informed by the Minister of Justice that no further action had been taken.

The Council may, under section 20 of the Act, acquire money, securities or other property by gift, bequest, or otherwise, and may expend, administer or dispose of them subject to the terms, if any, upon which they are made available to the Council. With the exception of parliamentary grants, moneys or property received by the Council pursuant to this section are presented in a consolidated balance sheet designated "Special Funds".

The principal of funds received by the Council pursuant to section 20 of the Act, together with the net profits on disposal of securities, held as a reserve against possible future investment losses, at March 31, 1970 and the comparable amounts at March 31, 1969 were:

	March 31	
	1970	1969
The Izaak Walton Killam Memorial Fund for Advanced Studies	$ 10,183,000	$ 8,670,000
Special Scholarship Fund	1,819,000	1,806,000
Molson Prize Fund	822,000	618,000
Lynch-Staunton Fund	704,000	700,000
John B. C. Watkins Estate	26,000	19,000
	$ 13,554,000	$ 11,813,000

The surplus earnings of these Funds which were available at March 31, 1970 for the purposes designated and the comparable amounts at March 31, 1969 were:

	March 31 1970	March 31 1969
The Izaak Walton Killam Memorial Fund for Advanced Studies	$ 594,000	$ 572,000
Special Scholarship Fund	473,000	350,000
Molson Prize Fund	14,000	19,000
Lynch-Staunton Fund	53,000	12,000
	$ 1,134,000	$ 953,000

During the year income earned by these Funds, grants authorized, charges paid and the amounts added to surplus were as follows:

	Income	Grants authorized	Administrative and other charges	Added to surplus
The Izaak Walton Killam Memorial Fund for Advanced Studies	$ 589,000	$ 525,000	$ 42,000	$ 22,000
Special Scholarship Fund	123,000	—	—	123,000
Molson Prize Fund	42,000	45,000	2,000	(5,000)
Lynch-Staunton Fund	41,000	—	—	41,000
	$ 795,000	$ 570,000	$ 44,000	$ 181,000

297. *The Custodian.* In accordance with Regulation 6 of the Revised Regulations Respecting Trading with the Enemy (1943) as set out in the schedule to The Trading with the Enemy (Transitional Powers) Act, *1947, c.24,* the Custodian is appointed "to receive, hold, manage, release, dispose of and otherwise deal with all property which is reported to him, received or controlled by him or vested in him". Pursuant to the provisions of the Department of Consumer and Corporate Affairs Act, *1967-68, c.16,* the Minister of Consumer and Corporate Affairs is the Custodian of Enemy Property and the Deputy Minister is the Deputy Custodian. The Custodian's Office is administered by an Assistant Deputy Custodian in Ottawa. A report on the audit of the Custodian's accounts for the year ended December 31, 1969 was made to the Minister of Consumer and Corporate Affairs.

The assets under the administrative control of the Custodian, which were valued in accordance with bases explained in an addendum to his statement of assets and liabilities (Public Accounts, Volume II, page 3.9), increased by $198,000 to $2,960,000 at December 31, 1969. The increase results mainly from an increase of $187,000 in the equity in holding companies, revenue of $18,000 from securities, which was not credited to the Custodian's Office Administration Account, and the receipt of additional assets valued at $7,000, offset by the release of assets amounting to $15,000 to two claimants.

Under the Regulations, the Custodian may charge against all property investigated, controlled or administered by him, whether it has been vested in him or not, a fee for services rendered not exceeding 2% of the value of the property including the income therefrom. He is also permitted to employ such part of the property vested in him or the proceeds therefrom as may be necessary to pay the expenses incurred in the administration of the Regulations.

In addition to the income from fees, any income received from vested assets which consist of, or are converted into, cash or Canada bonds is credited to the Custodian's Office Administration Account, from which expenses of the Office are paid. We have drawn attention to this procedure in past years because it is not consistent with the treatment of income arising from other assets vested in the Custodian. In February 1967 we were informed by the Deputy Custodian that, on the basis of his interpretation of an opinion given by the Department of Justice in 1947 and discussions with officers of that Department, he was satisfied that the Custodian was acting within his legal rights in retaining the income from the bank deposits and Canada bonds included among the vested assets. It is our opinion, however, that the Custodian is empowered to retain the income from any asset vested in him only to the extent that it is required to meet expenses incurred with respect to that particular estate plus a percentage of general expenses.

There was an excess of income over expense in the Custodian's Office Administration Account in 1969 of $72,000 which was added to the surplus account, increasing the balance to $922,000 at the year-end. A summary of income and expense for the past two years follows:

	Year ended December 31	
	1969	1968
Income—		
Income from investments	$ 148,000	$ 123,000
Interest on bank deposits	5,000	6,000
Fees on assets released from administration	—	4,000
	153,000	133,000
Expense—		
Salaries and employee benefits	73,000	64,000
Office rent	7,000	7,000
Other	1,000	4,000
	81,000	75,000
Excess of income over expense	$ 72,000	$ 58,000

Higher bond holdings and rates of interest account for the major portion of the increase in income from investments in the year. The absence of fees on assets released from administration results mainly from there being no transfer of funds to the Minister of Finance for credit to the War Claims Fund during the year.

298. *Economic Council of Canada.* The Council, consisting of a chairman, two directors and twenty-five other members appointed by the Governor in Council, was established as a corporation by the Economic Council of Canada Act, *1963, c.11,* to advise how Canada can achieve the highest possible levels of employment and efficient production.

As required by section 20 of the Act, we have audited the accounts and financial transactions of the Council for the year ended March 31, 1970 and have reported thereon to the Council and to the Prime Minister.

The following is a summary of the expense of the Council for the past two years:

	Year ended March 31	
	1970	1969
Salaries and employee benefits	$ 1,483,000	$ 1,249,000
Professional and special services	195,000	210,000
Accommodation	98,000	90,000
Office equipment, furniture, stationery and supplies	61,000	49,000
Travel and removal	47,000	57,000
Publication of reports and studies	31,000	26,000
Telephone, telegrams and postage	24,000	20,000
Miscellaneous	8,000	10,000
Total expense	$ 1,947,000	$ 1,711,000
Total expense provided for by—		
Privy Council Vote 25	$ 1,630,000	$ —
Privy Council Vote 20 of 1968–69	—	1,479,000
Government departments which provided major services without charge	317,000	232,000
	$ 1,947,000	$ 1,711,000

The expense for 1969-70 included $90,000, for studies begun in 1966 and on which a total of $436,000 has been expended to March 31, 1970, for a special reference from the Government concerning the responsibilities of the Department of the Registrar General of Canada (now the Department of Consumer and Corporate Affairs) relating to: interests of the consumer; combines, mergers, monopolies and restraint of trade; patents, trade marks, copyrights and registered industrial designs.

299. *Exchange Fund Account.* This Account was established in 1935 "to aid in the control and protection of the external value of the Canadian monetary unit", and now operates under Part III of the Currency, Mint and Exchange Fund Act, *R.S., c.315.*

As required by section 27 of the Act, we have audited the Exchange Fund Account and the transactions connected therewith for the year ended December 31, 1969 and have reported thereon to the Minister of Finance. This section requires a certificate to be given annually to Parliament and I now certify that, in my opinion, the transactions in connection with the Account have been in accordance with the provisions of the Act and that the records of the Account show truly and clearly the state of the Account.

The advances to the Exchange Fund Account from the Consolidated Revenue Fund at December 31, 1969 and 1968 were represented by the following:

	December 31 1969	December 31 1968
Canadian dollars	$ 750,000	$ 836,000
Deposit with Bank for International Settlements, with accrued interest	—	6,804,000
Deposit with Bank of England, with accrued interest	86,544,000	108,136,000
United States dollars, and securities with accrued interest	1,616,861,000	1,915,156,000
International Bank for Reconstruction and Development bonds, with accrued interest	38,620,000	10,970,000
International Monetary Fund note, with accrued interest	103,448,000	—
Gold	943,067,000	933,046,000
Suspense	65,000	291,000
	2,789,355,000	2,975,239,000
Deduct:		
Due to the Consolidated Revenue Fund, in accordance with section 24 of the Currency, Mint and Exchange Fund Act:		
Earnings for the year on investments	104,237,000	73,075,000
Net profit for the year from trading operations in foreign exchange, gold and securities less loss from net valuation adjustments on unmatched purchases or sales	836,000	11,435,000
	105,073,000	*84,510,000*
Surplus	30,282,000	29,729,000
	135,355,000	114,239,000
Advances from the Consolidated Revenue Fund	$ 2,654,000,000	$ 2,861,000,000

The United States dollar holdings were valued at $1.08108 (par of exchange) at December 31, 1969 and as a consequence the valuation of the holdings at that date, $2,788,540,000, was $21,325,000 greater than if the closing market rate of $1.0728125 had been used.

The earnings on investments and the net profits from trading operations in foreign exchange, gold and securities less the loss from net valuation adjustments on unmatched purchases or sales, amounting to $105,073,000, have since been paid into the Consolidated Revenue Fund as revenue of Canada.

On May 31, 1970, the Minister of Finance announced that, for the time being, Canada would no longer maintain the value of the Canadian dollar within the agreed margins of plus or minus one per cent of the official par of exchange. As a result, the closing market rate of the United States dollar on December 31, 1970 was $1.01125 and the value of United States dollar holdings at December 31, 1969, $2,788,540,000, had declined by $180,120,000.

300. *Government of the Northwest Territories.* The Northwest Territories Act, *R.S., c.331,* provides for the appointment by the Governor in Council of a chief executive officer for the Territories, to be known as the Commissioner, and for a Council of the Territories consisting of twelve members, of whom seven are elected and five are appointed

by the Governor in Council. The Commissioner in Council is empowered by the Act to make ordinances for the governing of the Territories in fields paralleling those normally within provincial jurisdiction.

As required by section 19c of the Act, we have examined the accounts and financial transactions of the Territories for the year ended March 31, 1970 and have reported thereon to the Council.

The following is a summary of expenditure and revenue of the Government of the Northwest Territories for the year ended March 31, 1970. Significant changes in the classification of expenditure preclude detailed comparison with the preceding fiscal year.

Expenditure—	
Operation and maintenance:	
Education	$ 7,465,000
Public Works	7,459,000
Local Government	3,989,000
Administration	3,776,000
Health	3,350,000
Social Development	3,159,000
Industry and Development	1,972,000
Territorial Secretary	1,119,000
Territorial Treasurer	721,000
Centennial	225,000
	33,235,000
Interest on loans from Canada	1,021,000
Project capital	7,023,000
	41,279,000
Revenue—	
Federal grants:	
Operating	8,718,000
Loan amortization	1,616,000
	10,334,000
Operation and maintenance:	
Liquor profits	2,148,000
Taxes	2,130,000
Staff housing rentals	735,000
Licences and fees	685,000
Interest on bank deposits	454,000
Other	439,000
	6,591,000
Expenditure recoveries under Federal-Territorial cost-sharing agreements:	
Transfer grants for additional programs assumed during the year	12,492,000
Health	2,185,000
Indian and Eskimo housing	906,000
Public Works	891,000
Centennial	290,000
Social Development	238,000
Education	191,000
Local Government	103,000
Industry and Development	22,000
	17,318,000
Project capital recoveries	2,143,000
	36,386,000
Excess of expenditure over revenue	$ 4,893,000

The amount of $906,000 received for the Indian and Eskimo housing program was in the form of advances from the Federal Government. No accounting has yet been made of expenditures against these advances since the related costs are not identified in the Territorial Government's records. A liability to the Federal Government for unused funds may exist but the amount, if any, cannot be determined until a final claim has been prepared and submitted.

301. *Government of the Yukon Territory.* The Yukon Act, *1952-53, c.53,* provides for the appointment by the Governor in Council of a chief executive officer for the Territory, to be known as the Commissioner, and for the election of a Council composed of seven members. The Commissioner in Council is empowered by the Act to make ordinances for the governing of the Territory in fields normally within provincial jurisdiction.

The accounts and financial transactions of the Territory are subject to examination by the Auditor General of Canada in accordance with section 26 of the Act and accordingly we have made an examination for the year ended March 31, 1970 and have reported thereon to the Council.

During 1969-70 expenditures for advertising, travel, living and removal expenses, which in 1968-69 were provided for in one separate appropriation, were provided for in each department's appropriation. The following is a summary of expenditure and revenue of the Territory for the year ended March 31, 1970, with comparable amounts for the preceding year:

	Year ended March 31	
	1970	1969
Expenditure—		
Operation and maintenance:		
Personnel services	$ 5,451,000	$ 4,411,000
Engineering	2,649,000	2,522,000
Education	1,268,000	1,195,000
Yukon Hospital Insurance Service	1,108,000	868,000
Municipal Affairs	984,000	583,000
Welfare	614,000	421,000
Health	447,000	365,000
Travel and Publicity	110,000	76,000
Correctional Institute	108,000	102,000
Other	864,000	773,000
	13,603,000	*11,316,000*
Interest on loans from Canada	891,000	604,000
Project capital	8,890,000	5,289,000
	23,384,000	17,209,000

	Year ended March 31	
	1970	1969
Revenue—		
Federal grants:		
Operating	$ 5,306,000	$ 4,612,000
Loan amortization	1,331,000	1,003,000
Loan interest	117,000	94,000
	6,754,000	*5,709,000*
Operation and maintenance:		
Taxes	2,391,000	2,091,000
Liquor profits	1,511,000	1,391,000
Licences	596,000	458,000
Interest on bank deposits	189,000	88,000
Other	138,000	132,000
	4,825,000	*4,160,000*
Expenditure recoveries (including $3,485,000 under Federal-Territorial cost-sharing agreements):		
Engineering	1,888,000	1,872,000
Yukon Hospital Insurance Service	699,000	586,000
Welfare	622,000	310,000
Municipal Affairs	532,000	272,000
Education	415,000	311,000
Health	106,000	78,000
Other	45,000	471,000
	4,307,000	*3,900,000*
Project capital recoveries	3,339,000	1,683,000
	19,225,000	15,452,000
Excess of expenditure over revenue	$ 4,159,000	$ 1,757,000

302. *Medical Research Council.* The Council was established as a corporation on April 1, 1969, by the Government Organization Act, 1969, *1968-69, c.28,* to promote, assist and undertake basic, applied and clinical research in Canada in the health sciences, other than public health research. The Medical Research Council, as established under the Act, continues to support the programs of its predecessor of the same name which operated within the framework of the National Research Council of Canada.

As required by section 68 of the Act, we have audited the accounts and financial transactions of the Council for the year ended March 31, 1970 and have reported thereon to the Council and to the Minister of National Health and Welfare.

A summary of the Council's expenditure for the year ended March 31, 1970 follows:

Scholarships and grants—	
Grants in aid of research	$ 20,771,000
Direct personnel support	7,718,000
Research promotion	2,402,000
	30,891,000
Administration—	
Salaries and employee benefits	205,000
Committee meetings	67,000
Printing, stationery and office supplies	44,000
Communications	34,000
Professional and special services	13,000
Other	29,000
	392,000
Total expenditure	$ 31,283,000
Total expenditure provided for by—	
National Health and Welfare Vote 55	$ 30,891,000
National Health and Welfare Vote 50	324,000
Government departments which provided major services without charge	68,000
	$ 31,283,000

As at March 31, 1970, the Council had outstanding commitments amounting to approximately $37,000,000 in respect of future grants and scholarships. During the year refunds of previous years' expenditure, $76,000, were credited to non-tax revenue.

303. *National Arts Centre Corporation.* The National Arts Centre Act, *1966-67, c.48,* established the National Arts Centre Corporation consisting of a Board of Trustees composed of a chairman, a vice-chairman, and nine other members appointed by the Governor in Council and the persons from time to time holding the five public offices named in the Act. The objects of the Corporation are to operate and maintain the National Arts Centre, to develop the performing arts in the national capital region and to assist the Canada Council in the development of the performing arts elsewhere in Canada.

The cost of the National Arts Centre including furnishings and equipment to March 31, 1970 amounted to $45.1 million which was provided from parliamentary appropriations of the Department of the Secretary of State. The Centre is not included among the assets of the Corporation and we are informed that the Department of Public Works intends to lease it to the Corporation for twenty years. Under the terms of the proposed lease, the Corporation is to assume responsibility for both maintenance and operation of the building but will not be required to pay rent or provide for interest and depreciation charges. If this policy is followed, the accounts and financial statements of the Corporation will not reflect the true costs of operating the National Arts Centre. (See paragraph 80 of this Report.)

As required by section 16 of the Act, we have audited the accounts and financial transactions of the Corporation for the year ended March 31, 1970 and have reported thereon to the Chairman of the Board with a copy of the report being provided to the Secretary of State.

At March 31, 1970 the proprietary equity was $148,000 in the form of working capital and is the amount by which the annual parliamentary appropriations have exceeded the net cost of operations since the opening of the Centre.

The 1969-70 appropriation for the Centre provided by Secretary of State Vote 50 was $2,500,000 which was $317,000 less than the net cost of operations of the Centre for the year.

The net cost of operations for the year, during ten months of which the Centre was in actual operation, was $2,817,000 compared with $965,000 in the previous year, when the Corporation's activities were mainly confined to research, organization, planning and preparing for the opening and operation of the Centre.

The following is a summary of operations for the year ended March 31, 1970:

Expense—	
Direct cost of concerts and theatrical performances:	
Visiting attractions	$ 767,000
Opening festival	517,000
National Arts Centre Orchestra	426,000
Regular theatre programs	532,000
General and administration:	*2,242,000*
Salaries and employee benefits	876,000
Advertising and promotion	428,000
Utilities	316,000
Security guards, ushers and guides	206,000
Building maintenance	174,000
Office supplies	74,000
Consultants' services and expenses	60,000
Telephone and telegraph	41,000
Employees' travel and duty entertainment	32,000
Receptions	25,000
Trustees' fees and expenses	21,000
Other	56,000
	2,309,000
	4,551,000
Income—	
Concerts and theatrical performances:	
Visiting attractions	657,000
Opening festival	209,000
National Arts Centre Orchestra	172,000
Regular theatre programs	217,000
Canada Council grants	199,000
Other income:	*1,454,000*
Parking	288,000
Rentals	89,000
Interest	69,000
Miscellaneous	30,000
	476,000
	1,930,000
Excess of expense over income	2,621,000
Add: Loss on restaurant operations	196,000
Net cost of operations, not including interest and depreciation charges connected with the National Arts Centre building	$ 2,817,000

Of the loss of $196,000 on restaurant operations, $191,000 was incurred in the period April 1, 1969 to January 3, 1970 when the restaurant was operated by a catering firm on a management fee basis.

304. *National Museums of Canada.* This Corporation was established by the National Museums Act, *1967-68, c.21,* and consists of a Board of Trustees composed of a Chairman, a Vice-Chairman, the Director of the Canada Council, the President of the National Research Council of Canada, and ten other members appointed by the Governor in Council. The purposes of the Corporation, comprising the National Gallery of Canada and the museums of human history, natural history and science and technology, are to demonstrate the products of nature and the works of man so as to promote interest therein and to disseminate knowledge thereof throughout Canada.

As required by section 21 of the Act, we have audited the accounts and financial transactions of the Corporation for the year ended March 31, 1970 and have reported thereon to the Chairman of the Board, with a copy of the report being provided to the Secretary of State.

The following is a summary of the expenditure of the Corporation for the past two years:

	Year ended March 31	
	1970	1969
Administration, operation and maintenance—		
Salaries, wages and employee benefits	$ 3,636,000	$ 3,131,000
Accommodation	2,904,000	748,000
Scientific and other professional and special services	652,000	590,000
Protective services	550,000	511,000
Materials and supplies	262,000	281,000
Travel	259,000	224,000
Publications	235,000	284,000
Office supplies and equipment including books	202,000	202,000
Exhibition rentals and photography services	119,000	141,000
Communications	109,000	101,000
Display services	95,000	221,000
Transportation of exhibitions	82,000	174,000
Other	210,000	239,000
	9,315,000	*6,847,000*
Works of art, artifacts and other objects	1,449,000	991,000
Machinery, equipment and furnishings	385,000	347,000
Total expenditure	$ 11,149,000	$ 8,185,000
Total expenditure provided for by—		
Secretary of State Vote 70	$ 6,289,000	$ 6,023,000
National Museums Purchase Account	1,449,000	991,000
Government departments which provided major services without charge	3,411,000	1,171,000
	$ 11,149,000	$ 8,185,000

Miscellaneous receipts amounted to $38,000 comprising: $21,000 from exhibition, lecture and restoration fees, etc.; $9,000 in refunds of previous years' expenditure; $7,000 from sales of publications, slides, photographs, etc.; and $1,000 in sundries. These receipts were recorded as revenue of the Secretary of State.

In accordance with section 10 of the Act, three special accounts, the National Museums Purchase Account, the National Museums Special Account and the National Museums Trust Account, are operated within the Consolidated Revenue Fund for Corporation purposes.

The National Museums Purchase Account, with a balance of $425,000 at the beginning of the year, was credited during the year with $1,050,000 from Secretary of State Vote 70 and $1,000 proceeds from insurance, and was charged with $1,449,000 for the acquisition of works of art, artifacts and objects, leaving a balance of $27,000 available at March 31, 1970 for future acquisitions.

The National Museums Special Account, which had a balance of $4,282 at April 1, 1969, was credited with $50,000 under the authority of Vote L144b, Appropriation Act No. 1, 1970, *1969-70, c.24,* and was charged with $7,737, the value of an inventory taken over from a revolving fund, leaving a balance of $46,545.

The National Museums Trust Account, which at April 1, 1969 had a balance of $2,901, was credited with interest of $75 and a bequest of $132. Expenditure of $115 left a balance of $2,993 at March 31, 1970.

305. *Roosevelt Campobello International Park Commission.* This Commission was established by an agreement between Canada and the United States of America signed on January 22, 1964 to administer the Roosevelt Campobello International Park, on Campobello Island, N.B., as a memorial to President Franklin Delano Roosevelt. Implementing legislation was enacted in Canada by the Roosevelt Campobello International Park Commission Act, *1964-65, c.19.* The Commission consists of six members, three appointed by the Government of Canada and three by the Government of the United States of America.

Proprietary equity at December 31, 1969 totalled $888,000, represented by cash, $204,000, and capital assets, $693,000, less accounts payable, $9,000.

All costs of maintenance and development of the Park are shared equally by the two countries. Operating expenditures totalled $140,000 for the Commission's year ended December 31, 1969 compared with $107,000 for the previous year. The major items of expense were: salaries, wages and employee benefits, $111,000; repairs and maintenance, $6,000; and travel, $5,000.

Capital expenditures amounted to $42,000 of which $38,000 was for property improvements and $4,000 was for equipment.

306. *Royal Canadian Mint stocks.* Prior to April 1, 1969 the Royal Canadian Mint was a branch of the Department of Finance and section 20 of the Currency, Mint and Exchange Fund Act, *R.S., c.315,* required that "the Auditor General shall, at least once

in each year, inspect the store of bullion and coin at the Mint". Our annual inspections under this Act have consisted of a complete count of precious metals and coin.

With effect from April 1, 1969 the Royal Canadian Mint was incorporated by section 72 of the Government Organization Act, 1969, *1968-69, c.28,* and section 20 of the Currency, Mint and Exchange Fund Act was repealed. Accordingly, there is now no statutory requirement that "at least once in each year" the Auditor General inspect the store of bullion and coin, which remains the property of the Department of Finance. While such counts will be made from time to time as part of our regular audit of the Department, there will not necessarily be a complete annual inspection of the store of bullion and coin unless Parliament or the Public Accounts Committee indicates its desire that this be done.

Section 93 (2) of the Government Organization Act, 1969, provides that:

> The Auditor General shall inspect the inventories of stores and metals of the Mint at least once in each year.

This changed requirement was inserted in Bill C-173 without prior consultation with the Auditor General. It is not practical, nor should it be necessary, for any auditor to make a 100% inspection of stores or base metals and therefore the inspection of stores and metals of the Mint will henceforth be on a test basis as is the case with the audit of other inventory accounts. These inventories were inspected as at March 31, 1969.

307. *Royal Canadian Mounted Police (Dependants) Pension Fund.* This Fund was established in 1934 under Part IV of the Royal Canadian Mounted Police Pension Continuation Act, *R.S., c.241,* to enable members of the Force other than commissioned officers to provide pensions for their dependants. The Fund, which forms part of the Consolidated Revenue Fund, is credited with contributions and charged with all pensions, annuities and other benefits paid. Interest on the principal of the Fund is credited at the rate of 4% per annum.

The balance of the Fund at March 31, 1970 was $8,439,000 compared with $8,282,000 at March 31, 1969.

As required by section 88 of the Act, we have examined the accounts and financial statement of the Fund for the year ended March 31, 1970 and have reported thereon to the Solicitor General.

The Act requires that an actuarial valuation of the Fund be made every five years. The last such valuation was made by the Department of Insurance as at March 31, 1969 and like the five preceding quinquennial valuations showed the Fund to be in a surplus position, the actuarial surplus at March 31, 1969 being estimated at $1,489,000. Following each of these valuations since 1949, an increase in benefits has been implemented on recommendation of the actuary. The increases which followed the recent valuation are estimated to increase the Fund's liabilities by $1,204,000, leaving an actuarial surplus of $285,000 in the Fund as at March 31, 1969.

The following is a summary of the Fund's transactions for the year together with comparable figures for the preceding year:

	Year ended March 31	
	1970	1969
Receipts—		
Contributions by members	$ 272,000	$ 320,000
Interest	328,000	322,000
Penalties on delayed contributions	—	1,000
	600,000	643,000
Disbursements—		
Withdrawals of contributions	351,000	372,000
Pensions to dependants	92,000	82,000
	443,000	454,000
Excess of receipts over disbursements	$ 157,000	$ 189,000

308. *Science Council of Canada.* The Council, consisting of a chairman, vice-chairman, twenty-three members and four associate members appointed by the Governor in Council, was established by the Science Council of Canada Act, *1966-67, c.19,* and incorporated with effect from April 1, 1969 by the Government Organization Act, 1969, *1968-69, c.28,* to assess Canada's scientific and technological resources, requirements and potentialities and to make reports and recommendations thereon to the Prime Minister.

As required by section 16B of the Act, we have audited the accounts and financial transactions of the Council for the year ended March 31, 1970 and have reported thereon to the Council and to the Prime Minister.

The following is a summary of the expense of the Council for the year ended March 31, 1970:

Salaries and employee benefits	$ 502,000
Professional and special services	414,000
Travel and removal	93,000
Accommodation	86,000
Office equipment, furniture, stationery and supplies	72,000
Publication of reports and studies	71,000
Telephone, telegrams and postage	20,000
Miscellaneous	12,000
Total expense	$ 1,270,000
Total expense provided for by—	
Privy Council Vote 20	$ 1,149,000
Government departments which provided major services without charge	121,000
	$ 1,270,000

* * * *

I would like to record my appreciation for the continued loyalty and devotion of the staff of the Audit Office throughout a particularly difficult year.

The past year has seen the retirement of three of my Audit Directors. Mr. D. A. Smith, B.A., B.Comm., commenced retirement on February 28, 1970 after thirty-six years service in the Office, and Mr. H. B. Rider, B.Comm., retired on June 26, 1970, also after thirty-six years service. On December 31, 1970, Mr. A. B. Stokes, F.C.A., retired following almost thirty years service, during the last two of which he had been on leave of absence while occupying the office of Director, Internal Audit Service, with the United Nations. Throughout their long service each of these officers maintained excellent working relationships with the various departments and was held in high regard by all members of our staff.

A. M. HENDERSON
Auditor General of Canada.

March 24, 1971.

APPENDICES

APPENDIX 1

RECOMMENDATIONS AND OBSERVATIONS BY THE STANDING COMMITTEE ON PUBLIC ACCOUNTS NOT YET IMPLEMENTED OR DEALT WITH

Fourth Report 1963—presented to the House on December 19, 1963

1. SECOND CLASS MAIL. The Committee expressed its belief that early consideration should be given by Parliament to ways and means of covering the loss of the Post Office Department in handling second class mail and requested the Auditor General to keep the matter before Parliament in his annual Reports in order that subsequent committees may give consideration to it.

In its Fourth Report 1966-67 the Committee stated that it felt that there was something wrong when no action had been taken with respect to, and apparently very little consideration given to, its recommendation on this matter. The Committee first drew the matter to the attention of the House in its Third Report 1958 and, while minor changes had been made, the annual loss had continued to increase and the Committee was of the opinion that sufficient consideration had not been given to the solution of this problem. It considered it essential that the Post Office Department or Parliament immediately find ways and means of covering the loss of the Post Office Department in handling second class mail without this being done at the expense of other classes of mail, keeping in mind, however, the need of assistance to small independently-owned newspapers circulating in rural areas. *See paragraph 134 of this Report.*

Fourth Report 1964-65—presented to the House on July 28, 1964

2. GOVERNOR GENERAL'S SPECIAL WARRANTS. The Committee recommended that a study be made of Governor General's special warrants.

3. UNEMPLOYMENT INSURANCE FUND AND ITS ADMINISTRATION. The Committee stated its opinion that it is in the public interest that the Government's consideration of the report of the Committee of Inquiry (which was tabled on December 20, 1962) be completed as soon as possible, and that the Government bring forward promptly such proposals as it may deem necessary to deal with the problems raised by the report.

The Committee also reiterated the additional recommendation made in its Fourth Report 1963 that preparation of the annual financial statements for the Unemployment Insurance Fund should be made a statutory responsibility of the Unemployment Insurance Commission and that the statements should be reported on by the Auditor General.

After having a report from departmental officers, the Committee in its Fourteenth Report 1966-67 indicated its understanding that legislation was to be brought before the House covering the report of the Committee of Inquiry. *See paragraph 292 of this Report.*

4. OFFICE OF THE AUDITOR GENERAL. In the opinion of the Committee, it is fundamental that this independent auditing office be strong, capable, efficient and equipped to operate in accordance with the high standards of independence and objectivity expected of professional accountants, with respect to the legal duties.

In its Third Report 1966-67 the Committee reiterated its opinion that as an officer of Parliament the Auditor General should have the right to recruit the professional and senior staff he needs in the same independent manner as do other officers of Parliament and added that the Auditor General's establishment should continue to be set in the same manner as government departments.

However, in its Fifth Report 1969-70 the Committee recommended that the staff of the Auditor General's Office remain under the Public Service Employment Act with the Instrument of Delegation of Staffing Authority.

Sixth Report 1964-65—presented to the House on October 20, 1964

5. ASSISTANCE TO PROVINCES BY THE ARMED FORCES IN CIVIL EMERGENCIES. The Committee noted that certain provinces had not settled outstanding accounts with the Department of National Defence relating to assistance provided by the Armed Forces in civil emergencies in prior years. It also noted that as the Department had not been successful in collecting the accounts, they had been referred to the Executive for direction but such direction had not as yet been received. The Committee directed the Auditor General to inform it of the final outcome of these matters.

   In its Fifth Report 1968-69 the Committee expressed the opinion that, while the Federal Government should continue to assist the provinces in civil emergencies, outstanding accounts should be settled in view of the agreements to pay, or agreement must be reached on cost-sharing. It considered that this item should be included on the agenda of a future Federal-Provincial Conference for clarification and requested the Auditor General to keep it informed on further developments. *See paragraph 97 of this Report.*

6. ERRORS IN PUBLIC SERVICE SUPERANNUATION ACCOUNT PENSION AND CONTRIBUTION CALCULATIONS. The Committee expressed concern that this matter (first drawn to the attention of the Department of Finance by the Auditor General in 1959), which it regards as being very serious, is taking so long to be corrected. It requested the Auditor General to keep it fully informed.

   In its Seventh Report 1966-67 the Committee noted that immediate steps were being taken to include in the internal auditing procedures of the Superannuation Branch an examination of the employee's contributions in relation to his salary and the documents on file. It requested the Auditor General to continue to keep it fully informed. *See paragraph 170 of this Report.*

7. INTEREST CHARGES ON LOANS TO THE NATIONAL CAPITAL COMMISSION. The Committee recorded how, in its Fourth Report 1963, it had expressed the view that since outlays on properties such as those held by the National Capital Commission are expenditures of the Crown rather than income-producing investments, it would be more realistic were Parliament asked to appropriate the funds in the years in which properties, which are not to be specifically held for resale, are to be acquired, instead of leaving the expenditure involved in the repayment of loans to be absorbed in future years.

   After hearing further evidence, the Committee stated it continues to hold the view that outlays on properties such as these are expenditures of the Crown rather than income-producing investments, and that Parliament should be asked to appropriate the funds in the years in which the properties are to be acquired. It pointed out that if this were done it would eliminate the need for Parliament to appropriate funds to the Commission to service loans made under the present practice. The Committee repeated its request that the Department of Finance review the existing practice with the National Capital Commission with a view to placing the financing of the Commission on a more realistic basis.

   In its Seventh Report 1966-67 the Committee repeated its views on this matter and stated that it was glad to note the undertaking of the Department of Finance to review and discuss the accounting treatment involved with the Auditor General. *See also item 22 of this Appendix and paragraphs 54, 210 and 267 of this Report.*

8. INDIRECT COMPENSATION TO CHARTERED BANKS. The Committee recalled that, in its Fourth Report 1963, it had advised the House that it was in agreement with the view of the Auditor General that the arrangement existing between the chartered banks and the Government of Canada does constitute indirect compensation to the chartered banks and that this may be construed as being contrary to the intent of section 93(1) of the Bank Act.

The Committee reiterated its belief that, if the banks are to be compensated for services provided to the Crown, consideration should be given to the most equitable manner in which this may be done, with statutory sanction being given by means of an appropriate amendment to the Bank Act, possibly at the time of the decennial revision in 1965.

In its Seventh Report 1966-67 the Committee noted that notwithstanding this recommendation, Bill C-222, An Act respecting Banks and Banking, given first reading on July 7, 1966, includes a provision under subclause (2) of clause 93 designed to permit the continuation of the practice of compensating the banks indirectly for services provided to the Crown by keeping non-interest-bearing funds (currently an aggregate of $100 million) on deposit with them.

In the opinion of the Committee the proposed amendment does not meet its recommendation. *See paragraph 66 of this Report.*

9. THE CANADA COUNCIL. The Committee stated that, in its Fourth Report 1963, it had noted that the Council proposed to accept the 1956 census as a basis for distribution of the profits realized and interest earned on the University Capital Grants Fund and also to accept the "hotch-pot" or trust fund approach to this distribution. Because of doubts expressed by other legal counsel and the Auditor General as to the propriety of applying these bases, the Committee had postponed further consideration of the matter.

The Committee was informed that in the interim the Council had proceeded to allocate and distribute funds resulting from profits realized and interest earned on the foregoing bases. The Committee regarded the approach as a reasonable one, but because of the conflicting views held as to whether the action taken is *ultra vires* subsection (2) (*b*) of section 17 of the Canada Council Act, recommended that steps be taken to seek amending legislation to provide clear authority for the Council to use the 1956 census and the "hotch-pot" approach in the distribution of interest and profits in respect of the University Capital Grants Fund.

In its Third Report 1966-67 the Committee again reiterated its recommendation and requested the Canada Council to formally request the Government to give consideration to the required amending legislation with the object of having it considered by Parliament prior to the final closing out of the University Capital Grants Fund. *See paragraph 296 of this Report.*

Seventh Report 1964-65—presented to the House on December 7, 1964

10. SURPLUS ASSETS DISPOSAL. The Committee expressed deep concern that while physical inventory quantities are maintained and are readily available in respect of all the equipment and supply items maintained by the Department of National Defence, the purchase cost of the materials, including supplies and equipment stores at supply depots and at repair and overhaul contractors' establishments, is not available. In accordance with sound business practice, it would be reasonable to ascertain, for the purposes of financial management control, the value of the inventory and what it costs to store and handle such an inventory.

While the Committee expressed its satisfaction with the supervisory methods exercised by the Department of National Defence over its physical inventory quantities, it did not see how the Department can perform a really effective job of inventory management without knowing the value of the inventory and what it costs to carry it. Furthermore, the lack of any cost or carrying values has rendered it difficult for the Committee either to form any reasonable estimate of the value of the supplies on hand or to determine what would seem to be a reasonable inventory level for a department the size of the Department of National Defence to maintain for the requirements of the three Armed Forces. In this connection it should be borne in mind that appropriations approved for the Department of National Defence have aggregated an average of $1,646 million annually, of which $421 million related to equipment, materials and supplies, over the past five years so that it does not seem unreasonable for the Committee to expect that some maximum dollar figure of values should be established to govern the size of the inventory. It was explained to the Committee by the officials of the Department of National Defence that the Department has been studying this matter for some time and the hope is entertained that it will be possible in due course to record the dollar value of this stock subject to the extent to which the recommendations of the Royal Commission on Government Organization are implemented in the years ahead. The Committee found general agreement that the determination of this would contribute materially to an improvement in the management of an inventory of this size.

The Committee made four recommendations of which the following has not yet been implemented:

> that every effort be made by the Executive to introduce at as early a date as possible an effective accounting change in the operations of the Department of National Defence whereby inventory quantities can be costed on acquisition and recorded in the quarterly or periodic inventory listings made by the Department.

Eighth Report 1964-65—presented to the House on December 7, 1964

11. AWARDS UNDER THE PENSION ACT. The Committee made the following recommendations designed to clarify the Act (*see paragraph 177 of this Report*):

(*a*) that the extent of the powers delegated to the Commission under section 25 of the Act, "to grant a compassionate pension, allowance or supplementary award in any case that it considers to be specially meritorious" where the applicant is otherwise unqualified to receive such an award, be clarified by defining the term "specially meritorious";

(*b*) that the ambiguity under the Act whereby section 40 (2) appears to contemplate that a pension in respect of death of a member of the forces be limited to a single class of recipient whereas other sections of the Act provide that payments in respect of a death may be made concurrently to a widow (section 37), children (section 26) and parents (section 38), be eliminated;

(*c*) that the inconsistency apparent under section 38 of the Pension Act, where pensions awarded to widowed mothers under subsection (3) thereof, which requires that the parent must be incapacitated by mental or physical infirmity from earning a livelihood, are by reason of subsection (7) being continued in payment even though the widowed mothers have subsequently been able to undertake full-time employment, be removed;

(*d*) that consideration be given to adding a section to the Pension Act similar to section 18 of the War Veterans Allowance Act to deal with cases where it appears to the Commission that there had been a deliberate disposal of property for the purpose of qualifying for a dependent parent award;

(*e*) that, having regard for section 40 (1) of the Pension Act which provides that no person shall be awarded more than one pension in respect of death, the Commission reconsider the legality of its decision to permit an award to a dependent parent of a second pension in respect of the death of a child after the rights to a pension awarded in respect of the death of another child have been lost under the terms of section 45 (2) of the Act.

12. WAR VETERANS ALLOWANCES. The Committee made the following recommendations (*see paragraph 178 of this Report*):

(*a*) the Committee, after taking note of the increasing number of overpayments arising mainly from veterans making false or misleading statements, and of the fact that, although 80 such cases had been referred to the Board by the Auditor General in 1962 and 1963, in none of these had legal action been instituted, recommends that all cases of deliberate deception which come to notice be vigorously prosecuted;

(*b*) that in cases where the presence of a child is the reason for an award at married rates, the income of the child, except income specifically exempted under the Act, be taken into account in determining the amount of the award.

In its Fifth Report 1968-69 the Committee expressed concern that its previous recommendation that cases of fraud with respect to war veterans allowances be "vigorously prosecuted" could be interpreted by some as indicating that the Committee's sole interest is in the recovery of the money. The Committee was aware that there may be mitigating circumstances and therefore recommended that the word "vigorously" be deleted.

13. AMENDMENTS TO THE CUSTOMS ACT AND THE EXCISE TAX ACT. The Committee made four recommendations of which the following has not yet been implemented (*see paragraph 125 of this Report*):

Determination of 'sale price' for sales tax purposes—

that an amendment be made to the Excise Tax Act designed to give statutory sanction to the existing scheme of valuation followed by the Department of National Revenue in authorizing manufacturers by regulation to compute the sales tax on less than the actual sale price.

14. ACCOUNTS NOT EXAMINED BY THE AUDITOR GENERAL. The Committee noted that although this officer of Parliament is the auditor of the majority of the Crown corporations, it has not been the practice of successive governments to appoint the Auditor General the auditor of seven of the Crown corporations and other public instrumentalities and that therefore their accounts have not been examined and reported upon by him to the House. The Committee expressed its belief that it would be in the best interests of Parliament in its control of public funds were the Auditor General empowered to audit the accounts of all of the Crown corporations, agencies and public instrumentalities owned or controlled by the Crown, wherever they may be, and to report thereon to the House.

The Committee therefore recommended:

(*a*) that the Auditor General be appointed either the sole auditor or a joint auditor pursuant to subsection (2) of section 77 of the Financial Administration Act, of each Crown corporation, agency and other public instrumentality in respect of which other auditors have been or may be appointed;

(*b*) that in cases where such other auditors are appointed, they function as joint auditors with the Auditor General, and that such appointments be made by the Government.

In its Third Report 1966-67 the Committee repeated this recommendation but in its Fifth Report 1969-70 the Committee, when proposing a new Auditor General of Canada Act, recommended that there be no change with respect to the auditing of Crown corporations. *See also item 30 of this Appendix and paragraph 244 of this Report.*

15. AUDIT OF THE OFFICE OF THE AUDITOR GENERAL. The Committee noted that pursuant to the provisions of section 75 of the Financial Administration Act, an officer of the public service nominated by the Treasury Board examines and certifies to the House of Commons in accordance with the outcome of his examinations the receipts and disbursements of the Office of the Auditor General.

The Committee recommended that this section of the Financial Administration Act be amended to provide that the receipts and disbursements of the Office of the Auditor General be examined by a qualified person nominated by Parliament through its Standing Committee on Public Accounts, and that such person should report thereon to the House of Commons. In its Third Report 1966-67 the Committee reiterated this recommendation.

Third Report 1966-67—presented to the House on June 28, 1966

16. SALARY OF THE AUDITOR GENERAL. The Committee noted that whereas the salaries paid to the senior deputy ministers and others were substantially increased with effect from December 1, 1965, no proposal had been made to the House by the Government to adjust the salary of the Auditor General whose salary is fixed pursuant to section 65(2) of the Financial Administration Act.

In order to render the Auditor General independent of the Executive in this regard, the Committee recommended that section 65(2) of the Financial Administration Act be amended to provide that the Auditor General shall out of the Consolidated Revenue Fund be paid a salary not less than the highest amount being paid to a senior deputy minister in the public service of Canada.

In its Fifth Report 1969-70 the Committee varied this recommendation by suggesting that consideration be given to making the salary of the Auditor General commensurate with the salary of a Federal Court Judge.

17. SEPARATE ACT OF PARLIAMENT. The Committee is of the opinion that all of the characteristics, duties and functions of the Office of the Auditor General should be set out in a separate Act of Parliament governing this Office instead of being a part of the Financial Administration Act.

The Committee reiterated this opinion in its Fifth Report 1969-70.

18. STANDING COMMITTEE ON PUBLIC ACCOUNTS. The Committee has studied an arrangement in Australia whereby the Public Accounts Committee is appointed under an Act of Parliament instead of under terms of reference by the House of Commons as is the case in Canada.

The Committee believes that control of public expenditure of the size and complexity taking place in Canada today requires a Committee established by statute and recommended that legislation of this type be introduced in the House.

The Committee further recommended that the annual Public Accounts and the Report of the Auditor General be referred to the Public Accounts Committee at the time they are tabled in the House.

Fifth Report 1966-67—presented to the House on October 19, 1966

19. POSSIBLE LOSS OF REVENUE WHEN GOODS LOSE TAX-EXEMPT STATUS. The Committee noted the manner in which the Customs and Excise Division of the Department of National Revenue places on owners and importers the onus for reporting any duty or tax which might become payable on non-tax paid equipment or goods. The Department maintains no control on such goods and consequently it is possible for equipment or goods to lose tax-exempt status without this coming to the attention of the Department, in which case there would be a loss of revenue to the Crown.

The Committee urged the Department to strengthen its procedures wherever possible so as to minimize any possible loss of revenue to the Crown.

20. DRAWBACK PAID ON GOODS DESTROYED AFTER RELEASE FROM CUSTOMS. The Committee was concerned to note that it had been the practice of the Department of National Revenue (Customs and Excise Division) to recommend to the Governor in Council that duty drawbacks or remissions be made on goods "destroyed in Canada at the expense of the owner under Customs supervision" when section 22(6) of the Financial Administration Act directs that: "No tax paid to Her Majesty on any goods shall be remitted by reason only that after the payment of the tax and after release from the control of customs or excise officers, the goods were lost or destroyed."

The Committee is of the opinion that the Department should adopt a stricter attitude towards requests for refunds and remissions based on circumstances which lie outside of normal business practice.

21. TAX EXEMPTIONS FOR PARTICULAR GROUPS. Parliament from time to time grants exemptions from sales tax and/or other taxes to institutions such as hospitals or schools and groups of consumers such as loggers, farmers, etc. In the course of discussions with departmental officers and the Auditor General, there were indications that in some cases the benefits of such tax exemptions are enjoyed by those whom Parliament had not intended to assist. The Committee is aware that special exemptions increase the complexities of administering the tax law but, nevertheless, it feels that the laws must be administered so as to ensure that exemptions granted by Parliament are applied only in the way Parliament intended.

The Committee urged the Customs and Excise Division of the Department of National Revenue in its administration of special exemptions always to see to it that the benefits from these exemptions go to, and only to, those for whom Parliament intended them.

Seventh Report 1966-67—presented to the House on October 26, 1966

22. LOANS AND ADVANCES REPRESENTING GRANTS TO CROWN CORPORATIONS. The Committee again criticized the practice of treating amounts paid to a Crown corporation, which did not have means to repay them, as loans and advances rather than expenditures of the Crown. The Committee was disturbed to learn that not only had the financing in this manner of the National Capital Commission not been reviewed by the Department of Finance as requested by it (see item 7) but the practice had been continued and further extended by the Department of Finance in 1965 when the House was asked to approve loans aggregating $14,250,000 to the Canadian Broadcasting Corporation to finance capital requirements which in the past were financed by grants charged to budgetary expenditure.

The Committee again expressed the opinion that expenditures of this type are not loans or advances which can or should be regarded as revenue-producing assets but are in fact grants and should be charged directly to budgetary expenditure in the Public Accounts of Canada. The Committee noted the undertaking of the Department of Finance to review and discuss the accounting treatment involved with the Auditor General and expects the latter's report thereon in due course. *See paragraphs 54 and 210 of this Report.*

The Committee discussed this matter with officials of the Canadian Broadcasting Corporation at its meeting on January 20, 1970, and in its First Report 1969-70 the Committee reiterated its view that it seems a questionable practice to treat amounts paid to a Crown corporation, which does not have the means to repay them, as loans and advances rather than as expenditures of the Crown. The Committee understood

from officials of the Corporation that their preference was that the amounts be treated as grants rather than loans and stated its intention of pursuing the matter further when the officials of the Department of Finance appeared before the Committee.

23. PRAIRIE FARM EMERGENCY FUND. The Committee believes it is important that the matters referred to by the Auditor General in paragraph 46 of his 1964 Report and paragraph 52 of his 1965 Report be rectified and recommended that appropriate legislation be introduced as soon as possible. It requested the Auditor General to keep the matter before the House and the Committee.

Eighth Report 1966-67—presented to the House on November 3, 1966

24. REPAIRS AND ALTERATIONS TO CANADIAN COAST GUARD SHIPS. The Auditor General, in paragraph 85 of his 1964 Report, drew attention to an instance where a ship repairer commenced operations under a contract involving a consideration of $43,346 but the work actually performed under the contract amounted to $130,851 before the ship was returned to service.

The Committee appreciates the problem faced by the Department of Transport when ships for which certain repairs have been contracted for require additional repairs, the need for which is not evident until the ship is opened up.

The Committee also appreciates the danger pointed out by the Auditor General that a shipyard could deliberately bid too low for the repairs specified in order to get the ship into its yard, and then recoup any loss sustained by including excessive profits in charges for the carrying out of the additional work that is found to be required after the ship has been opened up. The Committee feels that everything possible should be done to assure the Canadian taxpayer that the tender system in the case of ship repairs is working to ensure that costs of these repairs are not excessive, and it discussed with departmental officers various ways in which this continuing problem might be overcome.

The Committee recommended that, in addition to all other methods which the Department might be able to employ in controlling the cost of extras, ship repair contracts be drawn up to provide that when extras are involved they shall be undertaken on a cost-plus or a modified cost-plus basis, the profit to be limited to the percentage of profit realized on the original contract price, with a proviso that no loss be suffered on the extras and with the entire contract subject to cost audit by government auditors.

25. COST OF SALVAGING SUNKEN VESSEL. The Committee is of the opinion that costs of recovering a sunken vessel, the oil cargo of which was a threat to waterfowl, marine life and coastal property, should be the responsibility of the owner of the vessel and recommended that the Department of Transport take immediate steps to introduce the necessary legislation so that the Crown may be protected from such costs in future.

26. COST OF ABANDONED DESIGN PLANS FOR FERRY VESSEL. The Committee discussed with officers of the Department of Transport and the Canadian National Railways the additional payment of $20,000 which had to be made to the architects who were preparing plans for a ferry vessel to operate between Newfoundland and the mainland.

In the opinion of the Committee this additional expenditure resulted because the Department and the C.N.R. had not come to an agreement as to whether the ferry vessel was to be a full icebreaker or simply an ice-strengthened ship, and emphatically stated that the Department should ensure in future that agreement is reached before architects are asked to proceed with the preparation of plans.

Although the Treasury Board had approved payment to the architects of the final amount of $130,000 for the preparation of these plans, the Board had not been advised that this represented an increase of $20,000 over the amount which the architects had originally agreed to accept for the assignment.

The Committee feels very strongly that the Treasury Board must be given all facts when it is being requested to approve of contracts, and it urged the Department to see that future submissions to the Board are complete in this respect.

The Committee, recognizing that the ferries operated by the Canadian National Railways on behalf of the Department of Transport are in effect rail links, recommended that consideration be given to the assuming by the Railways of responsibility for the procurement of ferry vessels as is done with respect to rolling stock requirements.

27. INADEQUATE CONTROL OF STORES AT NORTHERN LOCATIONS. Following consideration of the situation disclosed in paragraph 104 of the Auditor General's 1965 Report, the Committee stated that it regards this matter as being of the utmost importance and urged the Department of Indian Affairs and Northern Development to establish adequate controls on all stores in the North with the least possible delay.

Tenth Report 1966-67—presented to the House on February 7, 1967

28. SALARIES AND WAGES PAID FOR WORK NOT PERFORMED. The Committee reviewed the practice of the Canadian Broadcasting Corporation in making payments to employees for scheduled hours during daily or weekly tours of duty in excess of actual hours of attendance, noting that such payments aggregate $450,000 per annum. The Committee considered that public funds should not be disbursed for work not performed and that managements of Crown corporations have a responsibility to ensure that the taxpayer's money is not used for non-productive work of this nature. The Committee recommended that such payments be eliminated by the management as and when the present union agreements come up for renewal.

The Committee again reviewed this practice when officials of the Canadian Broadcasting Corporation were before it on January 29, 1970, and in its First Report 1969-70 the Committee recommended that the Canadian Broadcasting Corporation negotiate with the unions involved in an endeavour to eliminate such payments. The Committee was also of the opinion that an effort should be made to have all CBC union contracts terminate at the same time.

29. PROPOSED REMOVAL ALLOWANCE. The Committee recommended that the Department of National Defence give consideration to recommending the establishment of a cash allowance for members of the Armed Forces being transferred equivalent to 90% of the estimated costs of moving their furniture and that it advise the Chairman of the Committee and the Auditor General of its decision.

In its Fifth Report 1968-69 the Committee noted that the Deputy Minister of National Defence had advised that disadvantages in such a scheme were such as to make it unwise to establish a cash allowance. However, the Committee remained of the opinion that serious consideration should be given to such a plan and requested the Deputy Minister of National Defence to review this subject and report.

Eleventh Report 1966-67—presented to the House on February 7, 1967

30. CENTRAL MORTGAGE AND HOUSING CORPORATION—APPOINTMENT OF AUDITORS. The Committee strongly reiterated its previous recommendation that the Auditor General of Canada should be the auditor or a joint auditor of all Crown corporations, agencies and

public instrumentalities owned or controlled by the Crown wherever they may be and that he report thereon to the House. The Committee therefore recommended that the Auditor General of Canada be appointed the auditor or joint auditor of Central Mortgage and Housing Corporation. *See also item 14 of this Appendix and paragraph 244 of this Report.*

31. CENTRAL MORTGAGE AND HOUSING CORPORATION—REPORTS OF THE AUDITORS. The Committee is of the opinion that it is entitled to be furnished with copies of all reports made by the external auditors of any Crown corporation and requested that the Minister responsible for Central Mortgage and Housing Corporation instruct the Corporation to make these available to the Committee for the fiscal years ended December 31, 1963 and December 31, 1964 and to do so without further delay.

Twelfth Report 1966-67—presented to the House on February 9, 1967

32. RECONSTITUTION OF FINANCIAL STRUCTURE OF THE NATIONAL HARBOURS BOARD. The Committee is concerned that there appears to be little prospect of the National Harbours Board being in a position to meet its principal and interest obligations and recommended that the financial structure of the Board be reconstituted. In this connection it was pleased to receive assurances that this matter was to be dealt with by the Department of Finance and the Board within the next twelve months. *See paragraph 268 of this Report.*

Thirteenth Report 1966-67—presented to the House on March 1, 1967

33. PARLIAMENTARY CONTROL OF EXPENDITURE. The Committee expressed the opinion that there is a weakening of parliamentary control when Parliament is unable to take the time to examine in detail the amounts being requested as interim supply particularly when these exceed the normal one-twelfth for each month for which interim supply is requested. It considers it unfortunate that the parliamentary rules do not provide for immediate consideration of the Estimates after they are presented to the House so that the proposed spending can be approved and interim supply would not be required so extensively. It feels that the rules could and should be changed in this regard in order not only to strengthen parliamentary control of public funds but to give the Executive the clear mandate it deserves in the discharge of its heavy responsibilities.

The Committee submitted recommendations designed to strengthen parliamentary control of public expenditures in the future of which the following is still outstanding (*see paragraph 48 of this Report*):

> that there be no change in the Treasury Board's procedure whereby it is the agency which determines the Government's overall cash requirements in stated areas, e.g. salary increases. However, once this determination is completed and the individual departmental needs established, the Committee believes that the additional amount required by each department should be made the subject of a supplementary estimate prepared by the department concerned for submission to Parliament for its consideration and appropriation in the usual manner.

Fifth Report 1968-69—presented to the House on June 26, 1969

34. EXCESSIVE ADVANCE PAYMENTS UNDER CONTRACTS. The Committee noted that an advance payment of $6.7 million, the full amount of a contract, had been made in March 1966 under a contract entered into on March 21, 1966. The Committee did not approve of the circumventing of the lapsing provision of section 35 of the Financial Administration Act in this way and recommended that the Treasury Board instruct departments not to contract themselves into obligations to make advance payments in order to avoid the lapsing of any portion of an appropriation. *See paragraph 99 of this Report.*

First Report 1969-70—presented to the House on February 12, 1970

35. EMERGENCY BROADCASTING. Although the costs incurred by the Canadian Broadcasting Corporation in providing the emergency broadcasting service had been reduced, the Committee expressed the opinion that the costs should be borne by the organization receiving the service and that the estimates of the Canadian Broadcasting Corporation should be reduced accordingly.

Second Report 1969-70—presented to the House on March 4, 1970

36. CO-ORDINATION OF RESEARCH AND DEVELOPMENT ASSISTANCE TO INDUSTRY. The Committee expressed the opinion that a central record of payments to various companies, by departments, should be kept by the Department of Industry, Trade and Commerce to prevent a possible duplication of effort and possible duplicate grants of funds.

Third Report 1969-70—presented to the House on May 13, 1970

37. REFIT AND IMPROVEMENT OF H.M.C.S. BONAVENTURE. The Committee recommended that:

(a) the departments concerned, that is, the Department of National Defence and the Department of Defence Production, determine the reasons why the departmental officers involved in the refit performed in the manner they did, and that they take appropriate action to ensure that such inefficiency be eliminated in the future. The Committee requested that it be informed of action taken with regard to both procedures and personnel involved in this refit.

(b) the Department of National Defence investigate the procedures used in awarding and supervising the refit of H.M.C.S. Bonaventure to ascertain whether or not they were in accord with the procedures in general effect at that time, and whether or not the present procedures within the Department of National Defence and the Department of Defence Production for awarding and supervising ship repair and refit contracts meet the needs of both the Defence Department and the Canadian taxpayer.

(c) the entire estimating procedure be reviewed and corrective action taken.

(d) as it was the conclusion of the Committee that the work paid for under order X-427 represented a duplication of work previously paid for under order X-81, the sum of $4,173 be returned to the Receiver Generel for Canada by Davie Shipbuilding Limited.

Fourth Report 1969-70—presented to the House on June 23, 1970

38. DELAY IN COLLECTING SALES TAX. The Committee noted that some licensed manufacturers prefer to collect sales tax on all their sales including sales of fully manufactured goods purchased by them for resale on which they had already been required to pay sales tax. In such cases the Department of National Revenue, by regulation, permits them to immediately deduct any sales tax paid by them on these purchases from amounts currently due to the Department with respect to their taxable sales. The effect of this regulation is that a manufacturer's inventory of fully manufactured goods purchased for resale is carried free of sales tax and the requirement of the law that sales tax be paid at the time of purchase of fully manufactured goods for resale is completely negated. The Committee, noting that there was no loss of revenue and that the Department was of the opinion that the practice being followed was less cumbersome than the practice called for by section 30 of the Excise Tax Act, expressed the opinion that an amendment to section 30 of the Excise Tax Act should be sought. *See paragraph 125 of this Report.*

39. PROVISION OF NAVIGATIONAL AIDS WITHOUT CHARGE TO USERS. The Committee expressed the opinion that, in line with Government policy and the recommendation of the Royal Commission on Government Organization, the Department of Transport should apply user charges where possible in connection with the provision of navigational aids, and in those areas where user charges are not feasible, the Department of Transport should seek authority from the Executive to continue to supply the services without charge.

First Report 1970-71—presented to the House on November 26, 1970

40. INCREASING ACCOMMODATION RENTAL COSTS. The Committee noted the increasing cost of rentals by the Crown and recommended that accommodation and damage costs be made a charge to each department's appropriation rather than have the Department of Public Works pay a large part of this sum out of its own appropriation. The Committee expressed the view that this change might make departments willing to seek more modest accommodation in an effort to keep their Estimates within reasonable bounds. *See paragraph 141 of this Report.*

41. INTERNAL AUDIT OF CANADA PENSION PLAN ADMINISTRATIVE COSTS. The Committee noted that, pending the establishment of departmental internal audit groups, an internal audit of charges against the Plan has not been made. The Committee felt that, as the Treasury Board had given the right to the Department of National Health and Welfare to conduct an audit of charges of their own Department and other participating departments, it should be exercised as soon as possible. *See paragraph 281 of this Report.*

APPENDIX 2

SUMMARY OF CANADA'S CONTRIBUTIONS TO FEDERAL-PROVINCIAL SHARED-COST PROGRAMS FOR THE FISCAL YEAR ENDED MARCH 31, 1970

(with comparative figures for the preceding fiscal year)

For comments on these programs see paragraph 179 of this Report.

	Year ended March 31	
	1970	1969
Agriculture—		
Crop insurance	$ 3,491,000	$ 3,651,000
Experimental crop insurance	1,188,000	1,200,000
Grants to 4-H Clubs	268,000	214,000
Programs under $100,000 (6 in each year)	286,000	252,000
	5,233,000	*5,317,000*
Energy, Mines and Resources—		
Saskatchewan-Nelson Basin Board	1,199,000	1,169,000
Construction of dams and other works to assist in the conservation and control of water resources	912,000	2,680,000
Construction of roads to open up promising areas for resources development	346,000	842,000
Aeromagnetic surveys of the Canadian Shield	343,000	445,000
Atlantic Tidal Power Programming Board	270,000	881,000
Programs under $100,000 (3 in 1969–70, 1 in 1968–69)	128,000	10,000
	3,198,000	*6,027,000*
External Affairs—		
International Joint Commission	279,000	306,000
Fisheries and Forestry—		
Newfoundland fisheries household resettlement	1,400,000	1,400,000
Industrial development	1,146,000	1,138,000
Inventory of forest resources and land capability studies	626,000	684,000
Combat of hemlock looper infestation	362,000	—
Preservation of Atlantic salmon, Saint John River, N.B	55,000	703,000
Community fishing stages	—	238,000
Combat of spruce budworm infestation	—	100,000
	3,589,000	*4,263,000*
Indian Affairs and Northern Development—		
General services to Eskimos	705,000	329,000
Community development—on and off Reserves	427,000	402,000
Fur and other resources conservation	204,000	257,000
Roads on and to Reserves	199,000	374,000
Vocational and technical training and orientation courses for Indians	195,000	131,000
Social assistance and child welfare for Indians	137,000	6,345,000
	1,867,000	*7,838,000*
Industry, Trade and Commerce—		
Interprovincial advertising	260,000	255,000
Returns on vital statistics	74,000	73,000
	334,000	*328,000*
Manpower and Immigration—		
Capital assistance in the provision of training facilities for adult occupational training	88,360,000	105,950,000
Vocational rehabilitation oi disabled persons	5,013,000	3,900,000
Technical and vocational training	1,256,000	3,500,000
Municipal winter works incentive	378,000	21,449,000
Agricultural manpower	158,000	190,000
Programs under $100,000 (2 in each year)	62,000	80,000
	95,227,000	*135,069,000*
National Defence—		
Emergency measures	2,983,000	3,733,000
National Health and Welfare—(Note 2)		
Hospital insurance and diagnostic services	634,047,000	560,285,000
Canada Assistance Plan	293,376,000	256,806,000
Medical care	180,954,000	32,966,000
Hospital construction grants	43,758,000	14,009,000
Health Resources Fund	34,383,000	33,923,000
General health grants	23,271,000	29,847,000
Disabled persons allowances	4,384,000	6,372,000
Blind persons allowances	1,830,000	2,030,000
National welfare grants	1,587,000	1,649,000
Fitness and amateur sport	1,126,000	821,000
Old age assistance	697,000	3,336,000
Unemployment assistance	525,000	860,000
Research and demonstration activities in the field of mental retardation	488,000	437,000
Programs under $100,000 (2 in each year)	4,000	7,000
	1,220,430,000	*943,348,000*

SUMMARY OF CANADA'S CONTRIBUTIONS TO FEDERAL-PROVINCIAL SHARED-COST PROGRAMS FOR THE FISCAL YEAR ENDED MARCH 31, 1970—Concluded

	Year ended March 31	
	1970	1969
Public Works—		
Trans-Canada Highway	$ 26,774,000	$ 37,312,000
Construction of highway in counties of Matane and Gaspé North, Que	1,104,000	2,435,000
Reconstruction of Calumet-Bryson Bridge, Que	107,000	210,000
Programs under $100,000 (5 in 1969-70, 6 in 1968-69)	129,000	259,000
	28,114,000	*40,216,000*
Regional Economic Expansion—		
Agricultural and Rural Development Act (ARDA)	24,520,000	24,486,000
Fund for Rural Economic Development (FRED)	22,186,000	9,514,000
Shellmouth, Man., dam and portage diversion	4,089,000	4,734,000
Bow River irrigation project, Alta	341,000	363,000
South Saskatchewan River irrigation and power project	509,000	1,141,000
St. Mary irrigation project, Alta	40,000	82,000
	51,685,000	*40,320,000*
Commitments of the Atlantic Development Board—		
Trunk highway program	6,647,000	18,366,000
Thermal power plant, Trenton, N.S	3,480,000	6,058,000
Research facilities	2,377,000	1,358,000
Water supply and sewage systems	2,077,000	3,023,000
Mapping, and land registration	1,943,000	348,000
Industrial park facilities	618,000	982,000
Strait of Canso development	213,000	24,000
Construction of highway, Long Harbour to Argentia-Placentia area, Nfld	173,000	474,000
Special housing assistance to residents of Bell Island, Nfld	139,000	143,000
Mobility assistance to residents of Bell Island, Nfld	135,000	73,000
Settling-in assistance to industry	—	1,200,000
Confederation Centre, Charlottetown, P.E.I	—	279,000
Electric frequency standardization, Nfld	—	181,000
Maritime union study	—	125,000
Paving access roads to selected fishing ports	—	119,000
Programs under $100,000 (2 in 1969-70, 7 in 1968-69)	9,000	200,000
	17,811,000	*32,953,000*
Secretary of State—		
Post-secondary education (Note 3)	301,433,000	276,600,000
Centennial Commission	1,435,000	4,870,000
Citizenship and language instruction for immigrants	371,000	486,000
Indian Friendship Centres	131,000	—
Bilingualism development	89,000	—
	303,459,000	*281,956,000*
Transport—		
Railway grade crossings	9,063,000	2,927,000
Losses on the operation of public housing projects	5,451,000	4,419,000
National Harbours Board—Construction of retaining wall along banks of St. Charles River, Que	964,000	232,000
Construction of high-level bridge, Trent River, Ont	—	350,000
Programs under $100,000 (1 in each year)	5,000	16,000
	15,483,000	*7,944,000*
Treasury Board—		
Technical information services	373,000	348,000
	$ 1,750,065,000	$ 1,509,966,000

NOTES:

(1) The expenditures shown are direct costs only and do not include federal administrative expenses.

(2) Not included in the expenditures are tax abatements and tax equalization payments of $470,185,000 in 1969-70 and $426,676,000 in 1968-69 to the Province of Quebec, following its election in 1965 under the Established Programs (Interim Arrangements) Act, *1964-65, c. 54*, to wholly administer and finance certain standing programs. These programs are hospital insurance and diagnostic services, Canada Assistance Plan, disabled persons allowances, old age assistance, blind persons allowances, unemployment assistance and certain aspects of general health grants.

(3) In addition to the expenditures shown under Secretary of State for post-secondary education, there were tax abatements and tax equalization payments to all provinces relating to post-secondary education, totalling $336,517,000 in 1969-70 and $277,937,000 in 1968-69.

APPENDIX 3

SUMMARY OF EXPENDITURE BY STANDARD OBJECTS FOR THE FISCAL YEAR ENDED MARCH 31, 1970

(with comparative figures for the preceding fiscal year)
(in millions of dollars)

	1969–70	1968–69	Increase or decrease(−)
Salaries and wages	$ 2,466.6	$ 2,260.2	$ 206.4
Other personnel costs	474.7	401.6	73.1
Transportation and communications	293.3	258.5	34.8
Information	34.6	29.2	5.4
Professional and special services	384.4	271.6	112.8
Rentals	83.2	69.1	14.1
Purchased repair and upkeep	145.3	226.8	−81.5
Utilities, materials, supplies and livestock	333.6	281.2	52.4
Construction and acquisition of land, buildings and equipment	336.6	344.3	− 7.7
Construction and acquisition of machinery, equipment and furnishings	327.3	374.9	−47.6
Grants, contributions and other transfer payments	5,244.3	4,601.3	643.0
Public debt charges	1,716.9	1,480.0	236.9
All other expenditure	445.7	441.3	4.4
	12,286.5	11,040.0	1,246.5
Less: Revenue credited to appropriations and expenditure recovered	355.2	301.0	54.2
Net total expenditure	$ 11,931.3	$ 10,739.0	$ 1,192.3

NOTE: Additional categories of revenue were credited to appropriations, with parliamentary authority, in 1969–70 and the 1968–69 figures for "Revenue credited to appropriations and expenditure recovered" and "Net total expenditure" have been adjusted for purposes of comparison.

EXHIBITS

(as published in the Public Accounts)

THE GOVERNMENT

STATEMENT OF EXPENDITURE AND REVENUE FOR
(with comparative figures for

EXPENDITURE

	Fiscal year ended March 31, 1970	March 31, 1969
Agriculture	$ 383,833,688	$ 286,881,349
Communications	13,428,715	12,830,989
Post Office	340,515,599	319,528,135
Consumer and Corporate Affairs	16,697,483	13,752,965
Energy, Mines and Resources	120,853,553	107,117,783
Atomic Energy	74,885,613	72,573,868
External Affairs	242,225,671	226,166,193
Finance—		
Public debt charges	1,716,928,646	1,479,987,036
Fiscal, tax-sharing, subsidies and other payments to provinces	932,420,487	867,115,872
Other expenditure	191,774,203	69,152,417
	2,841,123,336	*2,416,255,325*
Auditor General	2,865,748	2,423,060
Insurance	2,154,849	1,873,952
Fisheries and Forestry	76,866,896	79,045,963
Governor General and Lieutenant-Governors	1,124,040	1,039,210
Indian Affairs and Northern Development	311,434,559	266,992,760
Industry, Trade and Commerce	296,130,133	203,221,582
Justice	19,661,561	16,930,785
Labour	13,141,651	11,112,675
Unemployment Insurance Commission	142,377,381	125,435,370
Manpower and Immigration	439,510,592	416,115,015
National Defence—		
Defence services	1,541,765,353	1,507,694,827
Defence research	44,121,189	44,141,825
Other expenditure	203,621,461	208,959,112
	1,789,508,003	*1,760,795,764*
National Health and Welfare—		
Family allowances	560,049,929	560,186,052
Other expenditure	1,396,978,609	1,102,445,613
	1,957,028,538	*1,662,631,665*
National Revenue	144,583,159	119,970,863
Parliament	22,988,752	18,586,762
Privy Council	11,256,175	9,269,629
Public Works	288,244,033	284,771,301
Regional Economic Expansion	236,060,698	180,788,714
Secretary of State	387,497,162	374,240,394
Canadian Broadcasting Corporation	166,000,000	148,329,094
Solicitor General	70,820,435	64,183,123
Royal Canadian Mounted Police	113,263,782	101,755,172
Supply and Services	80,820,561	66,374,798
Transport	467,342,612	478,296,458
Central Mortgage and Housing Corporation	43,590,285	29,763,950
Treasury Board	269,443,206	314,541,206
National Research Council	121,651,855	117,786,798
Veterans Affairs—		
Pensions	222,315,557	226,369,907
Other expenditure	200,043,594	201,203,679
	422,359,151	*427,573,586*
Total expenditure	11,931,289,475	10,738,956,256
Budgetary surplus or deficit (−)	392,555,874	−576,112,843
	12,323,845,349	10,162,843,413

S. S. REISMAN,
Deputy Minister of Finance.

H. R. BALLS,
Deputy Receiver General for Canada.

(This Statement is to be found on pages 7.2 and 7.3 of the Public Accounts, Volume I)

EXHIBIT 1

OF CANADA

THE FISCAL YEAR ENDED MARCH 31, 1970
the preceding fiscal year)

REVENUE

	Fiscal year ended March 31, 1970	Fiscal year ended March 31, 1969
Tax revenue—		
Income tax—		
Personal(1)	$ 4,085,120,802	$ 3,356,430,988
Corporation(1)	2,611,961,028	2,030,040,413
On dividends, interest, etc., going abroad	248,511,376	205,566,003
Social development tax	476,500,000	63,000,000
Excise taxes—		
Sales(1)	1,716,899,405	1,569,840,938
Other	378,423,511	377,864,893
Customs import duties	818,282,786	761,681,095
Excise duties	518,844,479	509,287,828
Estate tax	100,630,908	112,377,045
Miscellaneous	250,770	249,889
	10,955,425,065	*8,986,339,092*
Non-tax revenue—		
Return on investments	860,031,744	697,226,762
Post Office—net postal revenue	354,752,869	288,441,169
Refunds of previous years' expenditure	29,727,570	23,665,099
Services and service fees	21,939,979	25,203,373
Proceeds from sales	16,684,875	17,198,396
Privileges, licences and permits	29,684,378	32,648,165
Bullion and coinage	19,939,895	74,764,059
Premium, discount and exchange	11,032,636	515,452
Miscellaneous	24,626,338	16,841,846
	1,368,420,284	*1,176,504,321*
Total revenue	12,323,845,349	10,162,843,413

(1) Excluding tax credited to:

	1969–70	1968–69
Old age security fund—		
Personal income tax	$1,026,500,000	$915,000,000
Corporation income tax	227,100,000	183,000,000
Sales tax	577,441,269	528,121,864

Auditor General's Certificate

The above Statement has been examined in accordance with the provisions of the Financial Administration Act. I have obtained all the information and explanations I have required and, subject to the comments in my report to the House of Commons, I certify that the Statement is in agreement with the accounts maintained by the Department of Finance and that, in my opinion, it exhibits a correct view of the expenditure and revenue of Canada for the year ended March 31, 1970.

A. M. HENDERSON,
Auditor General.

THE GOVERNMENT

STATEMENT OF ASSETS AND
(with comparative figures

ASSETS

	March 31, 1970	March 31, 1969	Net increase or decrease (−) during 1969–70
1. Current assets—			
(a) Cash, schedule A, page 9	$ 1,030,431,060	$ 884,933,108	$ 145,497,952
(b) Securities held for the securities investment account at amortized cost	97,369,756	44,426,807	52,942,949
(c) Other current assets, schedule B, page 9	43,613,799	52,013,769	−8,399,970
	1,171,414,615	*981,373,684*	*190,040,931*
2. Departmental working capital advances, schedule C, page 9	200,962,264	188,871,332	12,090,932
3. Cash, in blocked currency, schedule D, page 11	4,119	1,913,820	−1,909,701
4. Advances to the exchange fund account—(value of investments from advances on basis of official parity rates: March 31, 1970, $3,250,682,155; March 31, 1969, $2,897,282,289)	3,220,399,866	2,867,000,000	353,399,866
5. Investments in United States dollar securities issued by other than the Government of Canada—Columbia River Treaty	58,041,661	90,329,161	−32,287,500
6. Canada pension plan investment fund, schedule E, page 11	2,832,734,000	2,022,947,000	809,787,000
7. Investments held for retirement of unmatured debt	13,817,571	6,377,372	7,440,199
8. Loans to, and investments in, Crown corporations, schedule F, page 11	9,485,078,524	8,514,829,613	970,248,911
Recovery likely to require parliamentary appropriations	149,451,624	252,965,686	−103,514,062
	9,634,530,148	*8,767,795,299*	*866,734,849*
9. Loans to national governments, schedule G, page 13	1,327,927,779	1,269,212,533	58,715,246
10. Other loans and investments, schedule H, page 14—			
(a) Subscriptions to capital of, and working capital advances and loans to, international organizations	1,047,038,157	999,123,550	47,914,607
(b) Loans to provincial governments	319,649,195	270,328,270	49,320,925
(c) Municipal development and loan board advances	272,776,567	281,312,386	−8,535,819
(d) Veterans land act fund (less reserve for conditional benefits)	472,078,796	421,668,258	50,410,538
(e) Miscellaneous	222,041,299	141,907,731	80,133,568
	2,333,584,014	*2,114,340,195*	*219,243,819*
11. Securities held in trust, schedule I, page 18	114,363,168	111,466,006	2,897,162
12. Deferred charges—			
(a) Unamortized portions of actuarial deficiencies—			
Canadian forces superannuation account	254,805,600	242,691,200	12,114,400
Public service superannuation account	283,708,400	186,486,400	97,222,000
Royal Canadian Mounted Police superannuation account	29,282,800	20,720,200	8,562,600
(b) Unamortized loan flotation costs, appendix No. 7, section 10, page 17	182,798,793	163,458,374	19,340,419
	750,595,593	*613,356,174*	*137,239,419*
13. Capital assets	1	1	
14. Inactive loans and investments, schedule J, page 19	94,824,381	94,824,381	
Total recorded assets	21,753,199,180	19,129,806,958	2,623,392,222
15. *Less:* reserve for losses on realization of assets	−546,384,065	−546,384,065	
Net recorded assets	21,206,815,115	18,583,422,893	2,623,392,222
16. Net debt, represented by excess of liabilities over net recorded assets, schedule K, page 19	16,943,282,116	17,335,837,990	−392,555,874
	38,150,097,231	35,919,260,883	2,230,836,348

The notes appearing on page 6 are an integral part of this Statement of Assets and Liabilities.

S. S. REISMAN,
Deputy Minister of Finance.

H. R. BALLS,
Deputy Receiver General for Canada.

(This Statement and the schedules and pages referred to therein are to be found in the Public Accounts, Volume I, Section 7, except where otherwise indicated)

EXHIBIT 2

OF CANADA

LIABILITIES AS AT MARCH 31, 1970
as at March 31, 1969)

LIABILITIES

	March 31, 1970	March 31, 1969	Net increase or decrease (—) during 1969–70
17. Current and demand liabilities, schedule L, page 20—			
(a) Outstanding cheques	$ 515,879,534	$ 502,541,222	$ 13,338,312
(b) Accounts payable (that portion paid in April of the next following year)	602,615,259	470,161,879	132,453,380
(c) Non-interest-bearing notes payable to international financial organizations	379,065,400	601,008,062	−221,942,662
(d) Allocation of special drawing rights	134,399,866		134,399,866
(e) Matured debt outstanding	21,224,214	39,707,891	−18,483,677
(f) Interest due and outstanding	161,642,454	162,914,862	−1,272,408
(g) Interest accrued	434,022,517	399,433,074	34,589,443
(h) Other current liabilities	58,361,351	43,320,591	15,040,760
	2,307,210,595	*2,219,087,581*	*88,123,014*
18. Deposit and trust accounts, schedule M, page 22	491,881,909	511,842,589	−19,960,680
19. Annuity, insurance and pension accounts, schedule N, page 26	12,184,504,443	10,520,062,593	1,664,441,850
20. Undisbursed balances of appropriations to special accounts, schedule O, page 27	273,398,077	235,508,025	37,890,052
21. Refundable corporation tax	38,148,275	140,806,087	−102,657,812
22. Provision for compound interest on Canada savings bonds, schedule P, page 27	20,301,180	12,421,176	7,880,004
23. Deferred credits, schedule Q, page 27	192,928,440	174,325,834	18,602,606
24. Suspense accounts, schedule R, page 28	4,584,083	4,249,291	334,792
25. Unmatured debt, schedule S, page 29—			
(a) Bonds	19,742,140,229	19,260,957,707	481,182,522
(b) Treasury bills	2,895,000,000	2,840,000,000	55,000,000
	22,637,140,229	*22,100,957,707*	*536,182,522*
Total liabilities	38,150,097,231	35,919,260,883	2,230,836,348

NOTE:
The indirect or contingent liabilities of the Government of Canada, consisting of railway securities guaranteed as to principal and interest $1,050,475,986; other guarantees of $8,710,097,000; together with certain indeterminate guarantees, are listed on page 96.

Auditor General's Certificate

The above Statement has been examined in accordance with the provisions of the Financial Administration Act. I have obtained all the information and explanations I have required and, subject to the comments in my report to the House of Commons, I certify that the Statement is in agreement with the accounts maintained by the Department of Finance and that, in my opinion, it exhibits a correct view of the financial position of Canada as at March 31, 1970.

A. M. HENDERSON,
Auditor General.

EXHIBIT 3

SUMMARY OF APPROPRIATIONS, EXPENDITURES AND UNEXPENDED BALANCES BY DEPARTMENTS FOR THE FISCAL YEAR ENDED MARCH 31, 1970

Section (Volume II)	Department		Appropriations	Expenditures	Unexpended Balances	
					Lapsed	Carried forward(1)
			$	$	$	$
1	Agriculture		389,389,617	383,833,688	5,555,929	
2	Communications		375,767,160	353,944,314	21,822,846	
3	Consumei and Corporate Affairs		16,911,961	16,697,483	214,478	
4	Energy, Mines and Resources		203,373,280	195,739,166	7,634,114	
5	External Affairs	(2)	257,275,257	242,225,671	4,852,457	10,197,129
6	Finance		2,846,780,018	2,846,143,933	336,085	300,000
7	Fisheries and Forestry		77,829,199	76,866,896	962,303	
8	Governor General and Lieutenant-Governors		1,171,956	1,124,040	47,916	
9	Indian Affairs and Northern Development	(3)	312,281,054	311,434,559	650,373	196,122
10	Industry, Trade and Commerce		320,860,510	296,130,133	16,692,611	8,037,766
11	Justice		20,023,915	19,661,561	362,354	
12	Labour		155,996,894	155,519,032	477,862	
13	Manpower and Immigration	(4)	461,629,470	439,510,592	6,805,212	15,313,666
14	National Defence		1,793,352,675	1,789,508,003	3,844,672	
15	National Health and Welfare		1,959,917,901	1,957,028,538	2,889,363	
16	National Revenue		145,114,947	144,583,159	531,788	
17	Parliament		23,115,428	22,988,752	126,676	
18	Privy Council		11,755,070	11,256,175	498,895	
19	Public Works		317,541,300	288,244,033	29,297,267	
20	Regional Economic Expansion	(5)	249,709,391	236,060,698	13,434,001	214,692
21	Secretary of State	(6)	555,005,008	553,497,162	1,084,123	423,723
22	Solicitor General		187,429,126	184,084,217	3,344,909	
23	Supply and Services		82,274,904	80,820,561	1,454,343	
24	Transport		536,195,677	510,932,897	25,262,780	
25	Treasury Board		394,614,617	391,095,061	3,519,556	
26	Veterans Affairs		426,404,139	422,359,151	4,044,988	
			12,121,720,474	11,931,289,475	155,747,901	34,683,098

(1) Available for expenditure in subsequent fiscal years: Department of External Affairs vote 35, 1969-70 $10,197,129, Department of Finance vote 4b, 1969-70 $300,000, Department of Indian Affairs and Northern Development vote 30b, 1967-68 $196,122, Department of Industry, Trade and Commerce vote 36b, 1969-70 $8,037,766, Department of Manpower and Immigration vote 10b, 1969-70 $15,313,666, Department of Regional Economic Expansion vote 100a, 1967-68 $214,692, Department of Secretary of State vote 2b, 1968-69 $423,723.

(2) Includes $2,394,297 carried forward from vote 35, Department of External Affairs 1968-69 appropriations.

(3) Includes $516,671 carried forward from vote 30b, Department of Indian Affairs and Northern Development 1967-68 appropriations.

(4) Includes $434 carried forward from vote 6b, Department of Manpower and Immigration 1968-69 appropriations.

(5) Includes $489,605 carried forward from vote 100a, Department of Regional Economic Expansion 1968-69 appropriations.

(6) Includes $153,889 carried forward from vote 1b and $2,611,642 carried forward from vote 2b, Department of the Secretary of State 1968-69 appropriations.

S. S. REISMAN,
Deputy Minister of Finance.

H. R. BALLS,
Deputy Receiver General for Canada.

Auditor General's Certificate

The accounts relating to the expenditures as set forth in the above Statement have been examined under my direction and subject to the comments in my repoit to the House of Commons, I certify that, in my opinion, the Statement gives a correct summary for the year ended March 31, 1970.

A. M. HENDERSON,
Auditor General.

(This Summary is to be found on page 8.2 of the Public Accounts, Volume I, and the sections referred to therein are those in the Public Accounts, Volume II)

EXHIBIT 4

SUMMARY OF REVENUE BY MAIN CLASSIFICATIONS AND DEPARTMENTS FOR THE FISCAL YEAR ENDED MARCH 31, 1970

Section (Volume II)	Department	Tax revenue	Return on invest-ments	Bullion and coinage	Postal revenue	Privileges, licences and permits	Proceeds from sales	Services and service fees	Refunds of previous years' expenditure	Premium, discount and exchange	Miscel-laneous	Total
		$	$	$	$	$	$	$	$	$	$	$
1	Agriculture		64,477,730			310,915	1,594,310	10,980,757	208,602		63,593	77,635,907
2	Communications		2,470,256		354,752,869				108,686		142,512	357,474,323
3	Consumer and Corporate Affairs					7,375,465	51	2,985,279	6,414		542,143	10,909,352
4	Energy, Mines and Resources		2,301,879			461,294	1,065,158	51,444	534,988		65,689	4,480,452
5	External Affairs		1,573,398			65,779	19,968	440,707	501,511		556,571	3,157,934
6	Finance	250,770	435,867,026	19,939,895			3,950	1,711,404	1,726,810	11,032,636	6,088,815	476,621,306
7	Fisheries and Forestry		610,617			597,933	132,684	5,066	26,191		58,540	1,431,031
8	Governor General and Lieutenant-Governors								114			114
9	Indian Affairs and Northern Development		4,162,734			12.122,900	1,504,926	658,216	6,306,011		4,386,635	29,141,422
10	Industry, Trade and Commerce		8,185,468			67,252	851	44,915	2,150,950		136,178	10,595,614
11	Justice							50,336	62,284		95,164	207,784
12	Labour		1,452				1,066	2,792	6,517		639,583	651,410
13	Manpower and Immigration		58,125			12,607	8,768	18,576	532,578		308,976	939,630
14	National Defence		1,050,833			591,848	113,933	966,234	5,953,944		1,061,067	9,737,859
15	National Health and Welfare					13,094		24,864	930,214		269,424	1,237,596
16	National Revenue	10,955,174,295	220			214,509	301,114	370,868	99,507		5,025,243	10,961,185,756
17	Parliament					18,243		9,731	14,350		63,166	105,490
18	Privy Council								11,866		55,957	67,823
19	Public Works					5,387,601	285,066	1,532,655	833,757		533,943	8,573,022
20	Regional Economic Expansion		9,871,456			1,280,148	192,053	1,014,930	447,946		73,742	12,880,275
21	Secretary of State		6,067,726			646,562	6,964	58,115	43,117		53,929	6,876,413
22	Solicitor General		363,247			64,468	323,470	4,046	401,949		191,031	1,348,211
23	Supply and Services		8,724,807			68,287	7,765,941	971,647	233,655		96,253	17,860,590
24	Transport		295,285,954			385,473	3,364,602	37,397	3,737,349		2,587,083	305,397,858
25	Treasury Board								238,462		1,302,887	1,541,349
26	Veterans Affairs		18,958,816						4,599,798		228,214	23,786,828
		10,955,425,065	860,031,744	19,939,895	354,752,869	29,684,378	16,684,875	21,939,979	29,727,570	11,032,636	24,626,338	12,323,845,349

S. S. REISMAN,
Deputy Minister of Finance.

H. R. BALLS,
Deputy Receiver General for Canada.

Auditor General's Certificate

The accounts relating to the revenue as set forth in the above Statement have been examined under my direction and, subject to the comments in my report to the House of Commons, I certify that, in my opinion, the Statement gives a correct summary for the year ended March 31, 1970.

A. M. HENDERSON,
Auditor General.

(This Summary is to be found on pages 8.60 and 8.61 of the Public Accounts, Volume I, and the sections referred to therein are those in the Public Accounts, Volume II)